

**PLANNING IN A MARKET ECONOMY  
A STUDY OF THE FRENCH PLANNING SYSTEM**



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TO

My Brother

BIMAL PRASAD

The perennial source of inspiration



# FOREWORD

Economic planning is an area of study of vital importance as it affects the destiny of a large number of countries which have adopted it for managing their national economies. The nature of planning, however, varies from country to country as it is conditioned by the socio-economic, political and administrative framework within which it operates. A detailed understanding of the planning process can, therefore, be obtained only by looking at experiences in particular countries. The present book, dealing with planning system of France is, thus, a useful addition to the literature on planning.

The selection of France is noteworthy for more than one reason. France, like India, is a democratic country with a mixed economy. It introduced planning in 1946 and is still continuing with it. France provides numerous insights into the role of planning in a market economy. Hence the experience of France is of special relevance to India and such other countries which have opted for planning.

This book gives a detailed analysis of the planning process in a market economy: It shows how functioning of a market economy affects operation of the planning system. Besides discussing salient features of the French planning system related to nature of planning, process of plan formulation and implementation, credit planning, and role of decentralised planning, the book also contains a comparative account of the planning systems of India and France. A brief outline of the history of French planning from inception to the present day, has also been given to facilitate an understanding of the background of the French planning system. Greater details have been given about developments since the mid-

seventies, more particularly since 1981 after the new socialist government came to power. This is, therefore, the first book not only in English but even in French which analyses the French planning system in the light of the reforms of the last few years. I am sure the academic community as well as planners and administrators would find it very useful.

This is a self-contained concise book on French planning authored by a senior faculty member and an economist, who spent several months in France collecting information, interviewing experts and observing the process of plan formulation at both national and regional levels. This analytical study, therefore, has the freshness of first-hand information in the presentation of both facts and theory. It competently raises and discusses several basic questions.

The study of planning process is an important part of the activities of the Indian Institute of Public Administration. Earlier, several books and monographs have been published in this area. My own, *Grammar of Planning* was published as a monograph. The present book is next in our series of monographs which provide in a special manner a systematic presentation of a subject pertaining to public administration. I hope the readers will find it interesting and useful.



NEW DELHI  
DECEMBER 20, 1984

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P.R. DUBHASHI  
DIRECTOR  
INDIAN INSTITUTE OF  
PUBLIC ADMINISTRATION

## PREFACE

The world has, by now, a very rich and varied experience of economic planning. As introduced initially (in the Soviet Union) it was supposed to replace the market mechanism and not to function along with it. But subsequently a number of countries including our own introduced planning without abandoning the market mechanism. France was among the first few countries to do so. It introduced planning as early as in the year 1946 and has continued with it since then. A study of the working of the French planning system is, therefore, expected to be a rewarding experience for anyone interested in acquiring insights into role of planning in a market economy. Such a study is specially useful for students of planning in India which, like France, is also a democratic country with a market economy. And yet few people in India are aware of the existence of French Planning and still fewer are familiar with its working. One handicap is with regard to the availability of suitable reading material in English. Most of the celebrated books on French Planning were written in the sixties and, therefore, do not take account of developments since then. There is no book either in English or even in French which analyses the French Planning system in the light of the recent reforms introduced by President Mitterand after he came to power in 1981. Planning in a market economy works through various types of incentives/disincentives of which credit policy has been an important one in France. And yet adequate material on it is hardly available in books dealing with French Planning. Hence the need for an up-to-date book on the French Planning system giving a comprehensive treatment of the subject matter was realised which led me to come

forward with the present work.

My main concern has been to explain and appraise the salient features of the French Planning system as I have understood them. These pertain to nature of planning, the process of formulation and implementation of plans, credit planning and the role assigned to regions in planning. I have tried to examine how the functioning of a market economy affects the operation of the planning system. Greater details have been provided for developments since mid-seventies and more particularly since 1981 after the new Socialist government came to power. The study has been based primarily on secondary sources of information such as official publications including plan documents, evaluation reports, background notes, etc., on the one hand and relevant books and journal articles both in English and French on the other. This has been supplemented by interviews with experts and functionaries at different levels in the planning process and personal observation of the working of the planning machinery in France, both at the national and regional levels.

Material for the study was collected mostly during my stay in France first for a period of three months from September to November 1982 and then for a fortnight during September 1983. The first visit could be possible because of my nomination as a Visiting Scholar under the Indo-French Cultural Exchange programme by the Indian Council of Social Science Research of the Government of India. The second one could materialise due to a maintenance grant provided by the Maison Des Sciences De L'Homme, French Government, Paris. These visits gave me an opportunity to meet a large number of professional experts and officers dealing with planning in France (see Annexure for the list) to obtain basic documents, reports and other materials which could not have been available otherwise and to observe the working of the planning system at the national and regional levels from close quarters. The visits also enabled me to understand the

various changes in the planning system being introduced by the new government, appreciate their rationale and the context, examine their implications and evaluate their chances of success.

Before concluding, I would like to thank the Indian Council of Social Science Research, New Delhi and the Maison Des Sciences De L'Homme, Paris for giving me an opportunity to undertake this study. Thanks are also due to the officers of the French Planning Commission (the Commissariat General du Plan) for the necessary facilities provided by them as well as to the large number of experts on French Planning with whom I had discussions. In particular, I would like to thank Mrs. Paule Gentot, incharge of international relations of the Commissariat, who took great interest in my work and considerably helped me in getting interviews and procuring materials. I am also thankful to Shri P.R. Dubhashi, Director of my Institute who not only displayed a keen interest in this work but encouraged me at every step to go ahead with it and complete it so that it can be published as a monograph.

New Delhi  
September 1984

KAMTA PRASAD





# List of Experts Interviewed

## Commissariat General du Plan, Paris

1. Mr. Hubert Prevot  
Commissaire au Plan.
2. Mr. Yves Ullmo  
Commissaire--Adjoint au Plan.
3. Mr. Bernard Cazes  
Chef de la Division des Studes a Long Terme.
4. Prof. Dominique Strauss - Kahn  
Chef du Service du Financement.
5. Prof. Bernard Bobe  
Chef du Service es Studes et de la Recherche.
6. Mrs. Paule Gentot  
Chargee des Relations Internationales.
7. Mr. Georges Chacornac  
Chef de la Mission de Planification Regionale et Spatiale.
8. Mr. Gerard Bouvet  
Directeur de Cabinet du Commissaire au Plan.
9. Mr. M. Ozenda  
Charge de Mission Service du Financement.
10. Mr. Larmaraud  
Charge de Mission Service du Financement.
11. Mr. Robert Fraisse, Charge de Mission aupres du Commissaire.
12. Mr. Bruno Rabouille  
Charge de Mission Service Agricole.

## Other Government Departments in France

1. Mr. Dominique Perreau  
Cabinet de M. Recard, Planning Minister.
2. Mr. Dov Zerah  
Direction du Tresor.
3. Mr. de Villepin  
Direction du Budget.

4. Mr. Dominique Deprez  
Mission regionale de Lille.
5. Mr. Jean Pickot  
Chef de la mission regionale, Marseille.
6. Mr. Anselme Flavigny  
Le charge de Mission, Marseille.

### Others

1. Prof. Edmond Mqlinvaud  
Director, INSEE.
2. Prof. J. Benard  
CEPREMAP.
3. Prof. Bruno Jobert  
Charge de recherche au CNRS  
CERAT.
4. Mr. Michael Gentot  
Director  
Foundation Nationale des Sciences Politiques.
5. Mr. Gaston Olive  
Director  
Institut International D' Administration  
Publique.
6. Prof. P. Carpentier  
Institut International D' Administration  
Publique.
7. Prof. Jean-Paul Fitousi  
Observatoire des Conjonctures Economiques.
8. Mrs. Gross  
Credit National.
9. Mr. Clemens Heller  
Maison Des Sciences De L'Homme.
10. Dr. (Mrs.) Alice Thorner  
M.S.H.
11. Prof. E. Sachs  
Director CIRED  
M.S.H.
12. Prof. Michel Petit  
ENSSAA, Dijon.

13. Prof. Jack Hayward  
Hull, U.K.
14. Dr. D.J. Morris  
Economic Director  
NEDO, London.
15. Dr. (Miss) Linder Hesselman  
Economic Division  
NEDO, London.
16. Dr. Michael Watson  
University College of Wales  
Aberystwyth, U.K.
17. Dr. (Miss) Elspath Lochheal  
Centre for the Study of Public Policy  
University of Strathelyde, Glasgow.



## List of Abbreviations of French Terms

BIPE	Bureau d' Information et de Prevision Economiques.
BNP	Banque Nationale de Paris.
CEPII	Centre d' Etudes Prospectives et d' Informations Internationales.
CEPREMAP	Centre d' Etudes Prospectives d' Economic Mathematique Appliquees a la Planification.
CERC	Centre d' Etudes des Revenus et des Couts.
CEDT	Confederation Francaise Democratique du Travail.
CFTC	Confederation Francaise du Travail Chretienne.
OGP	Commissariat General du Plan.
OGT	Confederation General du Travail.
CIASI	Comite Interministeriel sur l'Amenagement des Structures Industrielles.
CODER	Commission de Development Economique Regionale.
CREDOC	Centre de Recherche et de Documentation sur la Consommation.
DATAR	Delegation de l'Amenagement du Territoire et a l'Action Regionale.
DMS	(Modele) Dynamique Multi-Sectoriel.
EDES	Fonds de Development Economique et Social
FIFI	(Modele) Physico-Financier.
INSEE	Institut National de la Statistique et des Etudes Economiques.
PAP	Programme d' Action Prioritaire.
PPE	Programme Prioritaire d' Execution.



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## CHAPTER I

# Planning in France- A BRIEF RESUME

It was nearly four decades ago, in the year 1946, that economic planning was introduced in France. It is doubtful whether anybody at that time would have ever expected it to last for long. But it has continued since then. During this period, the strategy of planning has undergone some changes as is to be expected on account of the changing economic and social reality. The emphasis on planning as a strategy of national development has also varied from time to time. However, the planning system had remained more or less the same till July 1982 when the new French Government under President Mitterand introduced a few significant changes in it. The basic objectives of planning have also displayed certain enduring features like "creating a group of dynamic French entrepreneurs interested in investment and foreign trade;... creating a new form of dialogue between the social and economic sectors, particularly between the management and workers' unions in a country, where tension and social debate have always been keen;... introducing versatility and innovation in the management of a highly centralised State".<sup>1</sup> We start with a brief review of planning in France since its inception to the present day so as to provide the background information necessary for a proper understanding of the subject matter.

### THE FIRST SEVEN PLANS--1946-1980

The origins of French Planning have been traced to the wartime preparation of French emergency needs for overseas assistance after liberation. The programme was extended after the attainment of the liberation and a special department set up in the Ministry of National

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Economy. "But the requirement of the French mission in Washington for a more systematic statement of governmental intensions and requirements resulted in the consolidation of scattered agencies into a central General Planning Commissariat, in January 1946, under the direction of the Chief Washington negotiator, Jean Monnet... With the change in United States aid from piecemeal to systematic, under the European Recovery Programme, the First Plan was extended to 1952 to coincide with the coverage of the Marshall Plan".<sup>2</sup> Subsequently, it was extended by one more year to 1953.

The First Plan was a success which naturally influenced the government to prepare a second plan, then a third and so on. By now seven plans have been completed as given below. The Eighth Plan already prepared and scheduled to start from 1981 was shelved on account of the change in government that took place after the national election of 1981. Instead, an interim plan for two years, 1982 and 1983, was taken up. This has been followed by the Ninth Plan for the period 1984 to 1988.

Plan Number	Period
I	1946-53
II	1954-57
III	1958-61
IV	1962-65
V	1966-70
VI	1971-75
VII	1976-80

The experience since 1981 would be described in a subsequent section of this chapter. Here we give an idea of the first seven plans covering the period from 1946 to 1980. Our treatment will be very brief because there are several books which give a detailed description of the early phase of the French planning.

The First Plan originally prepared for 1946-50 and later extended upto 1953 attracted a good deal of interest abroad in view of its tie-up with the Marshal

Aid. It was essentially a plan for reconstruction and expansion of six basic sectors of the economy, namely, coal, electricity, steel, cement, agricultural machinery and transportation. Subsequently, two more industries, fuels and fertilisers were added. No target of overall growth rate was set. The emphasis was on expansion, modernisation, efficiency, and modern management. This plan, unlike the subsequent ones was more akin to central than indicative planning. The investments were financed largely out of funds provided by the government. It was estimated that after 1948, about half of these funds were the counterpart of US aid through the Marshal Plan. Capital for expansion of the steel sector was provided by the government on condition of its merger. During this period, coal, electricity and railway transportation were nationalised.

The Second Plan (1954-57), formulated on a more systematic basis, covered the economy as a whole though the development of the basic sectors of the First Plan continued to receive priority. The Plan concentrated on certain basic aspects such as research, improved productivity, marketing reform, assistance to equipment and training, i.e., programmes to produce more but under competitive conditions of quality and price. Goals were laid down not only for the economy as a whole but also by sectors including housing. The growth rate was high and most of the targets were over fulfilled. But these achievements were accompanied by price hike and balance of payments deficit. The major setback was observed with respect to imports which went up by 50 per cent over the period whereas they had been expected to remain constant. This plan witnessed the relaxation of State controls over the private sector resulting in loosening of control over the direction of investment--a tendency which continued since then. Indicative planning, regarded as the hallmark of the French Planning style really started with the Second Plan. The threat of socialisation had ended and the Planning Commissariat was transformed into an agency for forecasting and economising.

Based on better data and a bigger sectoral breakdown,

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the Third Plan (1958-61), was a more sophisticated version of the Second. Apart from growth it was also concerned with the balance of payments situation. It took up the task of preparing the highly protected French economy to face international competition which the planners anticipated well in advance. The need to reduce costs, was underlined by the prospective entry of France to the European Common Market which was instituted by the Treaty of Rome signed in 1958. Domestic growth was planned to be lower than what had been attained in the Second Plan so as to reduce dependence on imports and stimulate exports. "The third plan marked a considerable advance on the technical level compared with the two previous plans insofar as its objectives were specifically directed to balanced growth and covered the whole economy in a more systematic fashion. With these in view, the plan figures were drawn up in the framework of the national accounts, of which a complete breakdown by major sectors for the terminal year (1961) was set up. The main production targets concerned, once more, the basic sectors (energy, steel, non-ferrous metals, cement, and the principal agricultural products). But the manufacturing industries, too, were expected to contribute heavily to the growth of output (33 per cent) and specially to exports (70 per cent)".<sup>3</sup> The plan, however, did not have a smooth sailing. Its start coincided with the political crisis leading to the demise of the Fourth Republic and the beginning of the Fifth under de Gaulle in 1958. It did not appear until February 1959 and was officially laid aside in 1960 being replaced by an Interim Plan for the years 1960 and 1961 which was intended to make up for the slow-down of 1958 and 1959. Moreover, the critical position in internal and external balance implied primacy of monetary and fiscal policies in which the Planning Commissariat had not much role. However, the planners continued to influence the restructuring of the industrial sector so as to increase its competitive position.

Whereas the first three plans, being plans of modernisation and equipment, had essentially economic objec-

tives, the Fourth Plan (1962-65) aimed at both economic and social developments. The economic development part of the plan was concerned, as before, with the growth of income, full employment, maximum efficiency, etc. The social side on which much emphasis was laid for the first time, included programmes for housing, health, education, culture, transportation and urban development. These constituted 'the hard core of the Plan'. The plan, therefore, came to be known as the "economic and social development" plan. In addition, problems of regional balance were given much importance. The degree of detail and technical sophistication contained in the physical projection was of a higher standard than that of earlier plans. The plan saw an increase in the number of plan preparation commissions (Modernisation Commissions) thereby increasing the scope for concertation. These commissions covered most of the sectors. Inter-sectoral consistency--coherence--was attempted through the so-called horizontal commissions.

The Fourth Plan quickly ran into trouble with an unexpected repatriation of refugees from Algeria and an inflationary and balance of payments crisis in 1963. It was replaced by the Finance Minister, Giscard d'Estaing's Stabilisation Plan in September 1963. Certain key investment programmes were, however, not affected despite the fact that the deflationary policies ran against the overall growth strategy.<sup>4</sup> "However, despite any misgivings about details, the Fourth Plan did represent a remarkable point for French Planning, not only because its forecasts were very accurate, but because the planners were actually being allowed to perform the useful task of providing coherent information to decision makers about the medium term".<sup>5</sup> During this period the plan also acquired status of a law. The Fourth Plan marked the end of the second phase (consisting of the Second, Third and Fourth Plans) of French planning. None of these plans were comprehensive though they reflected a continuing tendency towards more comprehensive planning. They worked better on the basic sector, concerted economy side than on the general resources

allocation side.

The Fifth Plan (1966-70) increased the plan period from four to five years and since then a five year plan period has been maintained. This plan was prepared in the light of the problems of the balance of payments and inflation which had appeared at the end of the Fourth Plan. In order to meet foreign competition, the plan recommended concentration of enterprises. At the same time, it also planned a slowing down of growth in consumption to a certain extent so as to increase exportable surplus. Aggregate output was predicted to grow below the long-run trend. Need to restructure the industry was also indicated so as to promote exports for financing the continued growth of imports. While the projected restructuring did occur to some extent, growth failed to slow down during the period. The components of domestic demand, particularly investment and government expenditure grew faster than the previous years; so did exports and imports. It was during the period of this plan that the well-known 'events' of May 1968 occurred. What started as a student revolt in an educational centre soon spread to the whole country. The trade unions also got involved. A major crisis overtook the whole nation. These factors naturally affected the completion of the Fifth Plan.

The Sixth Plan (1971-75) which followed thereafter was drawn up in a climate of increased social tensions and growing international competition. It accorded priority to the industrial imperative and the constitution of more powerful groups capable of acting on the international level. It projected the continuation of the growth rate of the previous five years concentrating on choice of particular programmes some of them economic and others concerning the collective services. The idea of the selectivity of the plan appeared. The industrial sector was projected to grow faster than ever before (at 7.5 per cent per annum). The effort to restructure industry continued so as to enable France to face international competition. At the same time, the plan made an attempt to increase social benefits and increase the

quality of life through public investment policy. However, the 1973 oil crisis resulting in sudden quadrupling of oil prices disrupted the plan. Industrial production declined by 10 per cent in 1974, unemployment exceeded by one million by 1975 and inflation reached new peaks by the end of the plan period. The period of uncertainty that followed reduced the efficacy of long term measures as enunciated in the plan. Government wished to remain flexible in the face of unforeseen possibilities. The credibility of the plan became questionable when two major trade unions dissociated themselves from it. The senior civil servants seemed to have less commitments to it and the government was reluctant to face the criticism that would result from openly disclosing its policy.<sup>6</sup>

"Following a period of hesitancy over the future of planning, the preparation of the Seventh Plan in 1975-76 was characterised by an ephemeral revival of optimism in the possibilities of returning to the pre-crisis expansion and a growth rate of 5.5 per cent was envisaged."<sup>7</sup> Other objectives of the Seventh Plan, approved in July 1976, were restricting inflation rate to less than 6 per cent, bringing about balance of payments equilibrium by 1980, reduction of inequalities, a better economic balance between regions, a more socially effective family policy and improvement in the quality of life specially in large cities on the one hand and in poor rural areas on the other. The programmes bore on either social issues (for instance: "a new family policy", "change in working conditions", "a better life in the cities") or economic issues (for instance: "help the development of small and medium size business and craftsmanship", "promote new construction techniques") or mixed social and economic problems (for instance: "develop the telephone network", by far the biggest programme).<sup>8</sup>

The Seventh Plan is noted for an important innovation in the field of planning methodology, namely, the inclusion of 25 Priority Action Programmes (PAP) as a part of the plan. Drawing lessons from the problems of implementation encountered in the Sixth Plan and the consequent

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loss of credibility of planning, the planners decided to secure stronger links with the finance and spending ministries. The PAP was a consequence of this realisation. These programmes which were specified precisely with details of budget appropriations, implied government's commitment to provide funds for them for the required number of years irrespective of changes in economic situation. They, therefore, sought to provide solution to the problem of inadequacy of an annual budget to long range operations. They constituted an essential element of the allocation process of public expenditure. The main objective of the PAP was to prevent important projects with respect to the targets of the plan from being forgotten or reduced in case of budgetary or economic difficulties. The 25 programmes included under this covered about 15 per cent of the government's civilian expenditure. This is to be regarded as a significant amount since a part of public outlay is usually committed on account of past decisions or continuing schemes.

The mid-term appraisal of the Plan found it to be over optimistic. As M. Raymond Barre, the then Prime Minister had observed, the difficulties and constraints weighing on the French economy were found to be more severe than was thought at the time the Plan had been formulated.<sup>9</sup> As a result, the Plan was revised in September 1978. It was based on the logic that employment was linked to growth, growth to the balance of payments and the balance of payments to the adaptation of industry.<sup>10</sup> It, therefore, identified three interdependent priority areas, namely, strengthening of the balance of payments, an adaptation of industry in the face of increasing international competition and an improvement in the employment situation. The revised plan dispensed with the earlier practice of prescribing a growth rate and other quantitative objectives since these were found to be unrealistic in view of the prevailing uncertainties.

The Priority Action Programmes, however, were left untouched. But their implementation led to several problems and even abuses by the concerned ministries which



have been analysed in detail by Prof. Jack Hayward<sup>11</sup> and would be summarised very briefly here. Most of the PAPs had been inspired by proposals from the ministries, a fact that was to make it subsequently even more difficult to promote the inter-ministerial collaboration that was an important objective of the whole exercise. An attempt was made by several ministries to include some of their non-priority programmes under it since they knew that their more important programmes would get financial support in any case. The initial enthusiasm of the concerned ministries waned once they realised that PAPs might imply redeployment of their existing funds and provide an opportunity to the Plan and the Budget to check on the efficiency with which funds were used. The budget did not agree to the idea of committing resources for a five year period. Coordinated implementation could not be possible because of reassertion of departmentalism. What happened in practice was that each ministry managed its own piece of the PAP. Often the coordination groups either did not meet at all or were attended by junior officials without the authority to give joint action the necessary impetus. Table 1 gives the list of the PAPs.

As can be seen, about half of the total outlay was allocated to telephones which had anyway been an increasing priority of the government over the years. The other programmes looked, like "a fairly random selection of worthy but not dramatic projects that include 'facilitating access to justice', 'improving road safety' and 'encouraging the care of old people at home'. They were distinguished by the fact that they were supposed to contain quantitative non-financial objectives and a set of specified instruments for realizing them, as well as the required fixed sum of constant-price Francs".<sup>12</sup>

#### DIFFERENT PHASES OF FRENCH PLANNING

The history of French Planning as described in the preceding pages can be viewed from different angles. As far as the content is concerned, one notices a gradual

Table 1 THE PAPs OF THE SEVENTH PLAN AND  
THEIR IMPLEMENTATION RATES

Programme	Planned total expend- iture in billion 1975 FF.	per cent implement- ation rate in 1980
1. Strengthening food and agriculture industries	3.4	90
2. Promoting industrialised building	0.1	86
3. Promoting small and medium firms	1.5	114
4. Development of telephone system	104.4	91
5. Improvement of transport for West, South-West and Massif Central	5.8	99
6. Rhone-Rhine link	0.8	78
7. Development of overseas territories	1.3	95
8. Reducing dependence on imported energy and raw materials	1.5	96
9. Export promotion	3.8	90
10. Improving the public employment service	3.1	89
11. Vocational training for the young	5.9	117
12. Upgrading manual work conditions	6.2	76
13. Promoting equal opportunity in schools	20.6	107
14. Family policy	1.0	72
15. Domiciliary care for elderly	0.5	82

Programme	Planned total expend- iture in billion 1975 FF.	per cent implem- ent- ation rate in 1980
16. Preventative health care	4.0	109
17. Easier access to justice	0.8	115
18. Consumer protection	1.9	95
19. Improvement of accommodation and nursing standards in hospitals	3.7	72
20. Road safety	0.9	91
21. Improvement of urban life	12.9	76
22. Conservation of architectural heritage	1.0	104
23. Rural development	2.9	105
24. Environmental protection	2.2	78
25. Research and development	10.5	91
26. Total	200.7	93

SOURCE: Saul Estrin and Peter Holmes, **French Planning in Theory and Practice**, London, George Allen and Unwin, 1963, p.163.

widening of the spheres of activity coming within the purview of the plans. As can be recalled, the First Plan started with six basic sectors, increased later on to eight. Gradually the whole economy came under the attention of the planners including the social sectors. The emphasis, of course, varied from plan to plan in the light of actual situation prevailing at the time. The methodology of planning witnessed a gradual refinement and sophistication, reflected in increasing use of models and improvement in models themselves, availability of better statistics and so on. The First Plan started with a more centralised approach to planning with government

directly affecting the performance of the basic sectors through provision of funds for development. But this was changed from the period of the Second Plan. Another significant change in planning methodology was introduced during the period of the Seventh Plan when the Priority Action Programme was introduced.

However, there have been significant changes in the general perception of the impact of French Planning and it is with these that we are primarily concerned in this section. Both the Second and the Third Plans attracted less attention in France as well as outside presumably because of the successive waves of inflation leading to balance of payments difficulties and devaluation of the Franc in 1958. Interest in the Plan began to increase with the preparation of the Fourth Plan for 1962-65. During the sixties, the popularity of the French plans was at its zenith. They attracted attention throughout the world, specially in the western democracies as a possible model for adoption in other capitalist democracies. Writing in mid-sixties, Stephen Cohen observed, "the British study and imitate the French Plan. American city and regional planners draw models of it. Eastern European economists continually visit the Planning Commission's offices in Paris. The Common Market talks about a French Plan for Europe, and the European Left thinks it significant enough to view it as a paradigm model of post-war European capitalism".<sup>13</sup> And according to Prof. Kindleberger, "Belgium adopted planning on the French model in 1959. The establishment of the National Economic Development Council draws admittedly on the same inspiration... Perhaps the most persuasive voice lifted in its behalf was that of a Washington economic journalist who urged its application in the United States."<sup>14</sup> And according to Dr. Cohen, Herbert Stein, Chairman of President Nixon's Council of Economic Advisers, told in December, 1973 that the "US might create a planning agency like the French".<sup>15</sup>

Several reasons led to the rise in popularity of planning. One was the support and public blessing given to it by President de Gaulle who in a speech delivered in

May 1961 exhorted his countrymen to regard the achievement of the aims of the Fourth Plan as an 'ardent obligation' and to make the plan *la grande affaire de la France*.<sup>16</sup> At the same time Mr. Pierre Masse who became planning commissioner in 1959 and continued till 1966 took great pains to increase the effectiveness as well as popularity of the plans. Almost all experts of French Planning regard him as an outstanding individual. Besides, the experience of the earlier plans had convinced the industrialists and businessmen that they needed the support of the plan for modernisation and progress. Restructuring of industries required long-term planning so that advance preparations could be made. The suspicion that other administrative departments might be having with regard to possible encroachments on their spheres of activities was also dispelled in the light of actual experience of earlier plans. Another reason for this popularity was the coincidence of planning with an era of fast progress and the belief that planning had something to do with it. During the first twenty years of planning, France had an average annual rate of growth of about 5 per cent and even exceeded the 6 per cent level during the sixties. This was substantially higher than those of Great Britain and the United States and quite comparable to that of West Germany and the Soviet Union. Its achievements were highlighted by its success in modernising a backward economy and conflict ridden society without using coercion. Moreover, as compared to other countries, growth in France was more stable as the coefficient of variation of its average annual growth rate was much lower than that of countries like the USA, the UK, Italy and Germany.<sup>17</sup> How far these achievements could be attributed to planning is debatable. There are some like Dr. B. Balassa who think that more than planning, it was the opening of the French economy to foreign trade and external capital movements that was primarily responsible for its success. Yet another reason was the realisation that French Planning had been characterized by a minimum of coercion and bureaucracy and a maximum of private decentralised decision-making and flexibility

thereby showing the comparability of French style planning with modern capitalism.

The events of May 1968 and subsequent exit of President de Gaulle marked a turning point in the history of French planning. This was followed by the oil crisis of 1973 and election of Giscard d'Estaing as President in 1974. His support to planning was suspected to be lukewarm. All these events tended to reduce the effectiveness of planning and lowered its prestige despite the fact that the technical efficiency of planning had improved as can be seen from increasing use of models which became more and more sophisticated. The decline was with respect to the political influence of the plan. The government became pre-occupied with ad hoc and short-term considerations and this forced the planners to concern themselves more with piecemeal programming (PAP) rather than achieving an overall strategy.

The reasons for this decline were both economic as well as political. During the seventies economic control was becoming lesser and market was becoming stronger and stronger. Firms had undergone through a process of modernisation and were in a better position to deal with market forces on their own. They were no longer dependent on government support and guidance as was the case earlier. Hence the amenability to the discipline of planning also declined. At the same time, there was an increase in the extent of uncertainties. These were of such a nature that planning could not do much to reduce them. The main reason for this was decline of protectionism and increase of open competition. France had become a part of the European Economic Community (EEC). Its foreign trade policy came to be decided in the EEC. The extent of the openness of the economy can be judged from the fact that its imports and exports came to about one fourth of its GDP. The oil crisis since 1973 became another factor responsible for increasing uncertainties. Forecasting became increasingly difficult with an unpredictable international situation. It is an irony that French Planning became less effective on account of the very forces created by it, namely, international competi-

tion. These were reinforced somewhat by political factors. President Georges Pompidou and more particularly President Giscard d'Estaing who were in power during this period believed in short-term management rather than long-term planning. French Planning did not tackle the problem of linkage between the short-term and the medium-term despite the fact that its technical and administrative aspects were well-organised and amongst the most sophisticated in the world. Perhaps these two factors which caused decline were inter-related: the political views of these two Presidents might have been born out of their experience flowing from international competition and external uncertainties. In addition, some of the other factors which had helped in increasing the prestige of the plan in the earlier decades no longer existed. The growth rate had become very low. The French industry had become relatively strong so that it was no longer dependent on the plan for its survival and growth. A part of the prestige of planning machinery and the plan depended on the personal status and prestige of the Planning Commissioner. In the early years and specially during the time of Masse, the Commissioner's position had retained a certain political neutrality as well as some autonomy. It is well-known that planning for about a decade in the fifties went on uninterrupted despite the very frequent changes in government. This did not continue later. The subsequent planning heads came to be more identified with the governmental machinery and did not enjoy that reputation which Masse had.<sup>18</sup>

#### RECENT EXPERIENCE AND FUTURE PROSPECTS

The proposed Eighth Plan which was to run from 1981 to 1985 had a framework more or less similar to the Seventh Plan including the PAP. Its draft continued the emphasis on selective strategy of planning. But unlike the Seventh Plan, it did not give a global growth rate. This was prompted by an indepth analysis of the international economic situation. The draft plan also introduced a new element in methodology of planning by

constructing many contrasting economic scenarios some of which were at the demand of the labour unions. However, the plan could not be implemented. There was a change in the political complexion of the government in May 1981 when the Socialists came to power. They did not want to associate themselves with a plan prepared by the earlier government. Hence, the Eighth Plan was shelved. In its place, an Interim Plan for two years, 1982 and 1983, was introduced.

This plan, approved in autumn 1981, was to meet the immediate emergency. It could not be described as a plan in the true sense of the term, but merely a plan of preparation for the Ninth Plan 1984-89 which was to follow it. Its six priorities were: rapid increase of employment, development of social security, helping firms meet their current difficulties, substantial increase in funds for research, improvements in the people's daily work and leisure, follow-up of results of collective bargaining (notably in the matter of reduced working hours) and structural reforms. The experience of this two-year plan was, however, not favourable. This was admitted by no less a person than Mr. Michel Rocard, the then Minister for Planning, in his inaugural address to the French National Planning Commission on September 8, 1982. Deviations of actual performance from planned path were noticed particularly with respect to the rate of increase of social benefits. The overall economic situation remained unsatisfactory. Imports rose and this created problem for balance of payments. As a result the adopted strategy could not be followed. Growth was also marginal. Thus its evaluation is negative if a macro-economic view is taken. However, most of the policy changes have more or less been enforced.

Meanwhile, the government decided to undertake a number of measures to modify and strengthen the planning process. On December 28, 1981 it appointed a high powered Commission to review the then existing planning process and suggest improvements. In its report, submitted in June 1982, the Commission drew attention to several deficiencies of the then pre-vailing planning process and



made suggestions to overcome them. In the light of these suggestions as well as other considerations, the government passed a new Act on July 29, 1982 to provide the legal framework for the preparation and implementation of future plans. This Act has tried to introduce greater democratisation into the planning process to bring about more decentralisation and to ensure better implementation. The details of this Act will be discussed under appropriate chapters.

In accordance with the new Act, the National Planning Commission was constituted by a decree issued on August 26, 1982 and was formally inaugurated on September 8, 1982. This Commission has 80 members consisting of chairmen of the regional councils, representatives of the organisations of employers, trade unions, farmers, small business, distributive trades/the professions, public sector industry, cooperatives and mutual bodies, cultural and associative organisations and some experts. It is chaired by the minister in charge of planning who is the only representative of the government on this Commission.

The National Planning Commission had several meetings supported by the work of administrative and other working groups. Each meeting usually lasted for half a day. The commission constituted eight sub-commissions for detailed review of specific items and then discussed the report of each of these sub-commissions. Thereupon, it met twice to discuss the report of the Commission as a whole for the first law of planning. Several meetings were also held at the time of preparation of the second law of planning. The First Plan Bill for the Ninth Plan, fixing its strategy and main objectives, was prepared in June 1983 and the Second Plan Bill, fixing the means of execution of the plan, was prepared on December 23, 1983. The eight sub-Commissions were as below:

- 1 -- Scientific, Technological  
Conditions and Cultural Development.
- 2 -- Development of Productive Activities.
- 3 -- Financial Economy: Choice and Methods.
- 4 -- Employment, Revenue and Solidarity.

- 5 -- Decentralised Development--Territorial and Cultural.
- 6 -- International Economic, Financial and Cultural Relations.
- 7 -- Social, Cultural and Educational Development.
- 8 -- Inter-group Employment.

The Commission has been quite active if judged by the number of meetings held. But these meetings were not well attended. In particular, the participation of regional representatives was low. Perhaps, the meetings called were so frequent that the members of the Commission who are otherwise busy could not find time to attend them. This might have been true of meetings during the first plan law but not of those during the second plan law when meetings were much less. Perhaps, the Commission had difficulty in understanding what was expected from it. The Commission gives advice without power. Government did not accept most of the views expressed in the Commission meeting and this might have reduced the importance of the body as perceived by its members resulting in their absence from the meetings. There was no consensus among the members of the Commission on many aspects. But, as there is no provision for voting, the views were simply recorded.

The Ninth Plan has been finalised and approved for execution from 1984. It shows how the government is interested in widening the field of planning. Apart from economic and social aspects, it would cover cultural aspects also. The extension of the public sector as a result of nationalisation of banks and other key industries by the new government was intended to serve the same purpose. The integration of plans made at the level of regions, public and private sector enterprises and even certain local collectives is intended to widen the scope of planning and to transform it from the plan of the state to the plan of the nation.

The Ninth Plan regards modernisation of the economy as a central task and, therefore, puts greater emphasis on industrial investment, research and training. The

emphasis on increasing self-sufficiency in energy would continue. Several programmes of social development would be taken up. The pride of place has been assigned to twelve priority programmes known as Programme Prioritaire d' Execution (PPE) which form the hard core of the Ninth Plan. They would be funded despite all cyclical fluctuations. Over the period of the Plan (1984-1988) an amount of 350 billion Francs at 1984 constant prices would be spent on these priority programmes half of which would be for training, research and employment. These programmes are intended to ensure achievement of the basic objectives of the Ninth Plan. Several of them have been disaggregated into sub-programmes. Table 2 gives the list of these programmes along with the budget appropriations for each of them for 1984 and planned outlay for the five years 1984 to 1988 at constant 1984 prices.

Table 2 PPE OF NINTH PLAN

Programmes	(In billion Francs)	
	1984 Budget	9th Plan Outlay
1. Modernisation of industry through new technologies and increased savings	3.2	19.9
2. Continued renovation of the educational and Youth training system	16.6	91.5
3. Encouragement of research and innovation	10.6	64.2
4. Expansion of the communication industries	3.6	21.2
5. Greater energy self-sufficiency	2.8	15.5
6. Employment	5.4	36.3
7. Improved selling in France and Abroad	4.7	27.7

(In billion Francs)

Programmes	(In billion Francs)	
	1984 Budget	9th Plan Outlay
8. Development of an environment favourable to the family and births	0.2	1.3
9. Decentralisation	3.3	21.0
10. Better urban living	2.6	15.1
11. Modernisation and improved management of the health system	5.1	28.7
12. Improvement of justice and security	1.3	8.1
Total	59.4	350.5
	= 60.0	350.0

This completes our review of the history of planning in France. What are the prospects for the future? An objective appraisal of the facts and circumstances as they stand in 1983-84 do not indicate a very bright future for French Planning. It is true that the new government, in contrast to the previous one, has been trying to strengthen the planning process. But there has been no change in the basic economic factors responsible for the denigration of planning, namely, international competition and external uncertainties; nor are they likely to change in near future. In view of this, it is doubtful whether planning will be as effective as is being held out by the new government. Further, the growth rate during 1970-79 has been 3 per cent in terms of per capita GNP. And the prospects for the next few years are estimated to be even lower, in the range of 1 to 2 per cent only. Such a low growth rate is not expected to create a favourable climate for planning. It may be recalled that one reason for the high pedestal to which planning had been placed in the fifties and sixties was the simultaneous occurrence of high growth rates and a feeling that planning had something to do with it.

The new planning is much more ambitious. Hence the risk of failure is also greater. Two such risks may be pointed out. Its drive towards democratisation of planning--governed partly by ideological considerations--has led to the involvement of politicians in the planning process (see Chapter III). However, planning is not something which is easily understood by politicians. They believe in quick yielding projects and are generally reluctant to take up unpleasant decisions implied in the long run by the planning exercise. Secondly, the current enthusiasm for planning has led to the creation of a large number of new departments which have been placed under the new ministers. The new team is full of proposals for different types of action. The problem now is not so much to stimulate programmes from the ministries as used to be the case earlier but to make the departments aware of the limits to action in view of financial constraints. The initial enthusiasm for planning is, therefore, likely to decline in case enough funds are not made available to meet the spate of proposals which would be coming forward. In other words, there is need for redeployment of resources which is always more difficult to be brought about than mere expansion or introduction of new activities. This also underlines the need for coherence. It has been noticed that the public agencies are more difficult to be controlled and coherence, therefore, becomes more difficult. Much would also depend upon the willingness of various social partners like the trade unions, the private business and public enterprises. Trade unions have not shown much enthusiasm for the plan. Public enterprises continue to believe in autonomy.

At the cabinet level, the planning portfolio was allotted to one of the ministers rather than to the Prime Minister. This decision might have been taken more on personal considerations than on requirements of making planning more effective. This was not likely to raise the effectiveness of the planning system. Such experiments had been made earlier also, e.g., in the late fifties (1954-61) and mid seventies (1976-77) but were

not found suitable because the inter-ministerial role which any planning has to perform is reduced whenever the planning office is under the charge of one of the ministers. Such an arrangement creates one more layer between the plan and the Prime Minister. However, a change took place in April 1983. Mr. Jean Le Garree, an engineer from the IBM in France, was appointed Secretary of State under the Prime Minister and given charge of planning and regional affairs in place of Mr. Rocard who was shifted elsewhere. Thus, technically speaking planning came back under the jurisdiction of the Prime Minister but it was actually in charge of a junior minister.

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## CHAPTER II

# Nature and Scope of French Planning

The several plans described earlier differ a lot from each other, as they might be expected to, in view of changes in circumstances from time to time. But their general framework and philosophy have remained more or less the same as those outlined by Jean Monnet, the father of French Planning. Even the present socialist government which has introduced several changes in the planning process has not changed the basic features of French Planning. It has described its planning reform as "a return to the inspiration of the founders of French Planning".<sup>1</sup>

### PLANNING AND THE MARKET MECHANISM

Planning in France as in India has co-existed with the functioning of a market economy which unlike India's has not been subjected to much control and regulation. This, therefore, raises a basic question about the extent to which the French economy can be regarded as a planned one. Is French Planning a planning in the real sense of the term? Does it involve purposeful direction of resources? If so, how does it affect the functioning of the market mechanism? The answer to these questions depends upon the way the term planning is defined. On this, there is no consensus. If planning is understood in the sense of a complete direction of all resources of a nation of the type that exists in a communist country then certainly France cannot be described as a planned economy. The government does not have direct ownership or control over all or even a major part of the means of production despite the gradual increase in this over a period of time. Nor does it indulge ordinarily in price



and wage controls, import quotas, consumer rationing or government allocations of raw-materials and capital of a type that exists in market economies like India. It is a characteristic of the French planning system that it is based primarily on persuasion, consent and inducements rather than on coercion. It reduces constraints for the market rather than increases them. However, authoritarianism and collective ownership of the means of production need not be the essential characteristics of planning though they seem to be so in view of the close association of the term planning with the Soviet economy. What planning implies is a purposeful direction of resources by the state the outcome of which should be different from the one brought about by the free play of market forces. The methods employed may vary from country to country: these include public ownership of means of production or use of coercion, inducement or persuasion or varying mixtures of these. All of them, however, aim at solutions which should be different from the ones that would be brought about by the market forces in the absence of planning.

A really significant question that arises here is whether the methods relying exclusively or primarily on inducement or persuasion can be effective in influencing the market to the desired extent in the desired directions. Proponents of the Soviet style planning feel that they can't and hence they equate planning with state ownership and control. On the other hand, there are others who hold the view that it is possible to influence the market by appropriate policies without resorting to control or public ownership. They believe in planning through the market rather than at the cost of market. To them, France provides an example of how the authorities have succeeded in attaining certain goals through the market mechanism. Doubts, however, still persist in several quarters about the efficacy of this method in general and the extent to which it can be considered to have succeeded in France in particular. We would, therefore, try to understand the nature of the French experiment and assess its effectiveness.

An essential characteristic of planning, no matter what method is used, is that it results in interventions in the market. It has been so in France also. But interventions by themselves need not constitute planning. Governments intervene in the market even in countries which are not planned. In France itself, there are several interventions which are not related to planning. As Kindleberger rightly pointed out, in the French context, "Planning is to be distinguished from *dirigisme* which prevailed in the inter-war years--the steady interference of public decisions in response to day-to-day difficulties without systematic, long term elicited aims."<sup>2</sup>

Much of the success of planning through the market would depend upon what its aims are and the extent to which they are in harmony with those of the market forces. Planning through the market has greater chance of success if its goals are in harmony with the interests of the leading operators of the market. Goals like efficiency, modernisation and growth belong to this category. On the other hand, it may be less effective if the goals run counter to the interests of these operators. For example, goals like a more equal distribution of income or restricting the growth of monopolies belong to this category. As will be explained at the end of this section, an important reason for the so called success of French Planning lies in the fact that its aims have always been in harmony with the interests of the big-business. French Planning has been planning in a market economy for the benefit of the market economy.

There are several ways in which the French style planning is supposed to work through and influence the market mechanism. One is through provision of additional information which helps enterprises to improve the formulation of their plans and programmes. The functioning of the price mechanism is usually characterised by a certain degree of uncertainty. Firms have imperfect knowledge about the intention and probable operations of other firms, and, therefore, about the economy as a whole. Consequently, their plans and schemes often go awry. By

providing this information in an objective manner, planning reduces uncertainties and helps the market mechanism in moving towards equilibrium solutions without the costs which are usually associated in a non planned market economy. In other words, planning is like market research. It supports or supplements rather than replaces the market mechanism. As Prof. J.E. Meade has pointed out "forward markets and indicative planning are in fact information systems which reduce uncertainty by passing to producers the knowledge which consumers have about future demand conditions, and passing to consumers the knowledge which producers have about future supply conditions"<sup>3</sup>. As a result private firms benefit. The entire economy also benefits because of reduction in production bottlenecks in specific industries which may otherwise affect the production plans of dependent industries. The reduction in uncertainties favours higher investment and more rapid expansion and smoothen industrial fluctuations. The information made available by the plan would be better not only because it is more comprehensive but also because it is consistent. Demand projections for all sectors would be prepared on the basis of uniform set of assumptions and checked against one another for consistency. It is this aspect of planning which helps it in becoming a universal guide for decisions. Such an information also helps the government in knowing the possible effects of a change in economic policies on the entire economy. This may result in adoption of more rational and coherent economic policies.

The allocative impact of planning may be produced from two types of information, one with respect to future prices and markets of the type provided by a full set of forward conditional markets and the other with respect to forecasts of macro-aggregates. It is the latter aspect which has been more prominent in France. The plans provide forecasts of growth which may be taken into account by enterprises for their own operations. The significance of this consideration increases further when it is noted that the planned projections are not just forecasts in the ordinary sense of the term but often

carry an element of normative judgement in the light of set objectives. In this way, the information contained in a plan would induce firms to expand their output to the limit set by supply potential.

The information provided is cost efficient in view of economies of scale involved in its collection, compilation and dissemination. Besides, there are general equilibrium or macro-economic inter dependencies which can best be observed by planners familiar with the whole economy and the manner in which the different elements in the market fit together. The sheer volume of information that firms would have to collect and process in order to make optimum decisions under uncertainty is too large to be handled efficiently by enterprises. Provision of such information by the state would be conducive to more efficient allocation of resources by the market forces.

The preparation and publication of information becomes an instrument for implementation of a plan based on them. Firms in their own interest would like to conform to the guidelines or indications contained in the plan. There is no need to make use of the coercive power of the state. There is no threat to freedom, right to private property and market mechanism.

Much, of course, would depend upon the correctness of future predictions and the extent to which these are considered reliable by enterprises. The allocative impact of planning would be worse if the information provided is inadequate or unreliable or plan predictions turn out to be incorrect. This is quite probable. In such a situation, in due course, the information provided by the plan may lose its credibility. Plan projections may fail to influence the rate of growth if enterprises choose to ignore them or are unwilling to place high trust on them.

The relevance of the considerations mentioned above can best be understood with reference to experience in France. As Estrin and Holmes have pointed out the French economy was relatively simple in the early years of planning. The predictions were more accurate. The planners were in a position to have a large impact on the

system as a whole by focusing attention on easily identifiable 'important' sectors. Subsequent changes, however, made planning more difficult as we have already seen in the previous chapter. "The number of potential environmental paths had vastly multiplied by the end of the 1960s, with a growth in foreign trade, the state and the service sectors and the general sophistication of the economy. Moreover, the system was sufficiently complex to lack obvious 'important' or leading sectors... The planners judged the environmental paths and 'important' sectors incorrectly in all plans after 1965, which meant that there were serious errors in their predictions. The high prestige which the plans had gradually built up could have led people to incorrectly shift their expectations if they had believed the planners, and thereby suffer losses relative to what would have occurred in the absence of planning. But the actual long-term effect was that agents completely lost faith in the plan forecasts. Hence, paradoxically, the institution designed to 'reduce uncertainty' lost its impact in a period of rising uncertainty".<sup>4</sup>

It is a characteristic of planning through price mechanism based on dissemination of information that it is not obligatory for the private sector to carry out the plan. Hence a situation of the type depicted above is likely to arise. However, the French have designed a planning system in which the private sector is also associated with it. The details of this are presented in the next chapter. As a result, formulation of the plan takes into account the information supplied and views expressed by the private sector. But the types of problems indicated earlier would still arise if there is a convergence of views on the wrong outcome. Moreover, the mere fact that the consultation process takes into account the plans and projects of the private sector enterprises does not guarantee that they obey the plan. They may agree on something in a meeting, but may opt out of it later on specially in view of changing circumstances.

The plan also enables the government to evolve a

framework of policies for influencing growth. The planning exercise provides a mechanism for the government departments and public sector units to exchange information and evolve a common and coherent approach on various issues of public interest after mutual discussion. The policies are expected to influence market trends through providing certain incentives or disincentives. The extent to which these interventions in the market amount to supplementing or replacing the market mechanism is a question to which there is no definite answer. Available evidence on this will be examined in a subsequent chapter.

The task of planners has been facilitated by the fact that France, though a capitalist country, differs from other capitalist countries such as Great Britain or the USA with regard to the role of the state in economic affairs. There has been a long tradition of state interventions in the market and this has not been a subject matter of controversy as in the case of Great Britain. Planning meant an extension or strengthening of this tradition: it implied planned intervention in place of unplanned one. Because of this interventionist tradition and because the market system never had a total dominance as in Britain, the functioning of the market economy did not evoke any significant opposition to the introduction and operation of planning in France.

At the same time, the nature of the planning process specially its reliance on the market was such that it did not pose a threat to the functioning of the market system. Instead, it tried to enlist the fullest possible cooperation of the private sector in the process of formulation of the plan itself. Business enterprises have always been adequately represented in the concertation process through the modernisation commissions/working groups. In addition, their influence is also felt through the ministries with whom they try to maintain good rapport. The ministries generally support their industries in any dealings with outside forces. Businessmen may even persuade the ministries to bear pressure upon the Planning Commissariat to modify its programme to

suit their own interests.

More importantly, concertation has been facilitated because of the overlap between the aims, objectives and programmes of planners and those of the big business, e.g., expansion and modernisation. Planning, indeed, came as an aid to the market system so that it can face international competition. The plans have concentrated on efficiency and expansion and not on questions of equity. They have not made any serious attempt to change the directions of development. Nor have they put any restriction on the expansion of big business. Rather the French planners have categorically and indiscriminately encouraged mergers. "In no published statement has the Planning Commission (i.e., the Commissariat) opposed a merger--not even when two such giants as St. Gobain and Pechiney combined their chemical operations."<sup>5</sup> Finally, it may also be said the French bureaucracy have close links with the business executives having common social and cultural bonds. Often they come from the same social background and attend the same or similar educational institutions. Hence there has been no problem of any communication gap between the two. Speaking of the fifties and sixties Dr. Cohen pointed out that over twenty-five per cent of the Inspectors of Finance used to shift over into executive positions in the largest industrial firms and banks.<sup>6</sup>

#### SCOPE OF PLANNED ECONOMY

It is not possible to make any categorical statement regarding the extent of the economy subject to planning in France or for that matter in any market dominated economy. France, no doubt, has a large public sector covering many of the more important economic activities which are expected to function as per the directives given by the state. *Prima facie*, such units provide a potent instrument for influencing the operations of several related activities and enterprises under the private sector also. However, in view of the very strong tradition of autonomy enjoyed by public sector units in

France, the extent to which these units are being controlled by the planning authorities has been a debatable point, on which more will be said in Chapter V. Besides, as elaborated in that chapter, the government influences the decisions of private sector through incentives provided by its policies like those of capital issue and credit. But to what extent and with what effectiveness is not known. And finally, the plan is said to influence the behaviour of a large multitude of firms both in the public and private sectors by obtaining their consent through persuasion exercised through a consultative process and by becoming the reference point for action. Thus, it can be said that the extent to which the French economy is amenable to influence by the plan is considerable--an assertion which could be supported by the rather close correspondence between the planned and actual levels of activity in several sectors specially till mid sixties. As pointed out by Estrin and Holmes, projections of GDP and consumption have been very close to outcome with the errors rarely exceeding 4 per cent of the forecast over five years.<sup>7</sup> However, the same authors also point out that achievements in the sphere of exports and imports deviated significantly from the plan projections. Significant deviations have also been observed for the industrial sector. Hence the issue remains unresolved.

In this respect, one also finds some interesting inter-sectoral variations. Agriculture was never really planned, even though Estrin and Holmes in the study cited above, observe a close correspondence between plan projections and achievements in this field. Government's interventions in agriculture have been limited primarily to fixing agricultural support prices, providing for subsidised agriculture credit and giving other subsidies to agriculture. Decisions on what to produce, how much to produce and how to produce are made by farmers or their associations. Agriculture, however, does not occupy an important place in the French economy. In 1981, its share in gross income was 4 per cent and that in employment 8.5 per cent. Industry on the other hand



provided about 40 per cent of income and 35 per cent of employment.<sup>8</sup> Defence has functioned outside the planning system. But industrial sector which is the most important and dynamic sector of the economy has been the subject of planning from the very beginning even though the planning has been piecemeal. Social facilities and infrastructure have also been under the review of planners.

The successive plans have witnessed an enlargement of the extent of the economy coming under the plan. Thus, the First Plan dealt with a few basic sectors considered to be in need of priority development. The scope was extended to all industries from the Second Plan. Progressively and particularly from the Fourth Plan, the programming field moved from the production sector to the social overhead capital sector and, more particularly, to social facilities. And with the Sixth Plan, the programming was virtually complete. According to Ullmo, this plan laid down the five-year block figures for equipment expenditure for each of the ten major 'collective functions' (i.e., education, health, urban development, transport, telecommunications, etc.). It considered operating costs and transfer costs as well as investment costs with the implication that the analysis should cover the whole budget. The corresponding operations were programmed either every year or every few years by the various ministerial departments and regional authorities. While planning has been dominated by aspects dealing with investment and production, it could not remain completely unconcerned with questions of distribution. As Ullmo points out, from the Third Plan onwards, the physical study of growth was extended to the study of the distribution and redistribution of incomes (overall economic table). And "after the Fifth Plan had included social benefits, the planners began to examine the distribution aspects of the various collective functions, while a new 'target-groups' approach aimed at identifying and embracing all aspects of economic and social policy concerning certain particular social groups (old people, children, immigrants, etc.). Lastly, the regionalisation of the

Plan rapidly became an attempt to link regional and town plan with national planning, these plans being themselves linked with the general guidelines of the policy of balanced territorial development."<sup>9</sup> However, as pointed out in the Eighth Plan, with the steadily broadening of its content, the Plan lost some of its force. "The regard in which planning procedures were held resulted in increasing pressure to have a largest possible number of government subsidised public infrastructural projects included in the plan and this has transformed what should have remained a declaration of national and regional priorities into a catalogue of piecemeal operations of no clear significance."<sup>10</sup>

#### PLAN CONTENT

The plans assemble and publish reliable data and information on major issues related to country's economic and social development. They analyse current economic and social situation and explore the future. They shed light on controversial matters which quite often receive an unscientific and oracular treatment. They classify and state national goals and thereby help in increasing the coherence of government policies. They give firms the right guidance in their long range decisions.

Apart from providing these guidelines for economic and social policy, some of the plans also provided a list of coherent set of targets to be achieved and contained certain more detailed action programmes the scope of which has varied from time to time. In the early plans, these action programmes were mainly concerned with certain production sectors, but later on were extended to cover social sectors also. The first two plans gave production targets for a select list of industries. Later on, the plans tried to put together integrated framework for the country's overall social and economic objectives. There was a gradual shift towards more macro-economic planning from the Third to the Seventh Plan. With the Fourth Plan, the entire economy came under the purview of the planners. Specific projects were not, in general,

written into the Plan unless they had particular political significance. Overall growth rates came to be determined and included in the plans. Interest in macro policies was also evinced.

Different plans have adopted different approaches regarding public outlay. Before 1961, the plans gave an outline of future development of the economy especially industries in both the public and private sectors. They sought to influence the decision makers in use of their funds. The Fourth and Fifth Plans, however, concerned themselves with the budget and contained targets for the growth of public investment by category. The Sixth Plan merely predicted overall public spending. Subsequently, it was realised that in this type of programming overall public expenditure covered a wide area which imposed too much rigidity on the execution of the annual budgets. Hence the idea of planning public spending as a whole was given up. Accordingly, the Seventh Plan concentrated on a limited number (twentyfive) of priority action programmes (the PAP) covering only about 15 per cent of the State's overall civil expenditure budget which was to be immune from future cuts. These have been described in the first chapter. The still born Eighth Plan continued this feature. The Ninth Plan has also adopted the same approach with some modification and under a different name (the PPE).

Another change noticed in recent years is the tendency to avoid fixing targets whether macro or micro. The increasing uncertainty on account of the international factor and the planner's inability to predict them correctly showed the futility of having precise targets. Moreover, authorities in the Finance Ministry who are in charge of short-term regulation do not like to be bound by medium term decisions. Hence, in place of targets, the Revised Seventh Plan as well as the Eighth Plan indicated strategies expressed in qualitative terms only.

It is worth noting that the Ninth Plan prepared under a different government has adopted more or less the same framework. It is expressed primarily in terms of strategies rather than targets. Some compromise targets at the

macro level, e.g., for the growth rate, inflation, balance of payments, employment and foreign trade have, no doubt, been given, but these are expressed in relative and not absolute terms. For example, it has been indicated that the growth rate should be higher than and the inflation rate lower than the corresponding rates of the EEC. The similarity in the approach of the Ninth Plan to the preceding one reflects how planners have been guided by objective considerations and are not swayed by party programmes alone.

### INDICATIVE PLANNING

Indicative Planning (as opposed to imperative) has for long been regarded by many as the most important feature of the French Planning system. This implies planning without control. It shows the directions in which the economy ought to go rather than providing specific targets for individual plants and firms. This is supposed to reconcile economic planning with decentralised decision-making, private property, democracy and efficiency. "It is the great virtue of French Planning that it has left individual firms to experiment, innovate, overexpand and underexpand by restricting its planning to indications rather than commands". Conceived in this way, French Planning supplements rather than replaces the market.

Indicative planning, however, is not a very correct description of French style planning since it ignored the role of practical objectives which have been essential features of every plan. In fact, as Bauchet pointed out long ago, "the merely 'indicative plan' by which a State attempts only to look into the future without trying to change it is not worthy of the name."<sup>12</sup> The basis for indicative planning lies in the belief that the French plans just give forecasts of economic activities. However, the projections of the future or the targets given in the plans are not just the outcome of forecasting in the usual sense of the term; they also take into account the directions of State policy. The targeted

levels are on the assumption of the operation of the planned policy measures. Such targets have been fixed for certain basic sectors as in the first two plans or for macro aggregates like overall growth rate as in the subsequent plans. Targets are usually fixed through an iterative process. One may first set the objectives and then find out the policy instruments and then iterate. Or one may first fix the instruments, see the outcome and then iterate. Thus the plans provide conditional forecasts--some of the conditions being elements of a policy. The manner in which the forecasts are determined can be illustrated with reference to what happened during the preparation of the Seventh Plan. The INSEE had made a forecast of the growth rate of income at 3.8 per cent. However, the government considered it rather low. There was, therefore, a deliberate decision to have a more ambitious target of 5.5 to 6 per cent.<sup>13</sup>

A purely indicative plan would imply that government does not orient growth in a direction different from that which would have prevailed in the absence of the plan. This view of indicative planning is clearly inapplicable for any scheme of planned development which is a normative matter of values, choices and conflicts. The direction of growth is determined by choices between (say) more hospitals or more motor cars, more leisure or higher output, etc. Any normative decision is bound to affect the allocation of resources. Suppose government decides to have more of schools and colleges. As a result, other sectors will not expand as quickly as they would have done otherwise. This can be brought about in several ways by affecting demand or supply. In order to raise more resources for the purpose, the government may reduce demand by raising more taxes or by reducing its subsidies or raising hire-purchase rates. Or it may act on the supply side by raising interest rates, or by limiting the inflow of foreign goods. Or it can adopt a policy of deficit financing and allow the resulting inflation to reallocate resources through the market mechanism. The purely market outcome is modified in any case. For example, an increase in interest rates may

affect capital intensive industries more than labour intensive ones. Similarly, an increase in hire-purchase rates may reduce demand for consumer durables more than that for medical services. Subsequent modifications are, of course, brought about by the market mechanism. The economywide implications of a contemplated shift in resources could be studied by an indicative plan. It may provide information not only to the government which takes the initial decision but also to all those who may be affected by it.

When some French economists and planners describe French Planning as indicative planning, they wish to differentiate their planning from the one pursued in the Soviet Union. It is understood that the so-called targets are not just forecasts but are affected by the objectives of the government, and that government uses policy instruments for their attainment. But these instruments are consistent with the functioning of a market economy. There is no coercion or control of the market. Even the public sector enterprises are given sufficient freedom of operation.

But all these do not imply that government remains passive or just provides indications. As Planning Commissioner, Masse pointed out long ago "... The Plan is in principle normative, the projection (on which the plan is based) is partly normative and partly predictional".<sup>14</sup> Masse, therefore, described French Planning as "indicative but active".<sup>15</sup> What this implies is that French Planning is not confined simply to forecasting and describing the spontaneous development of the French economy--as might be suggested by the term indicative, but also to guiding it towards the attainment of chosen objectives for which purpose certain policy instruments, mostly of the nature of incentives, are used. Some of these policies are discussed in other chapters.

Similar viewpoints were expressed by M. Jacques Delmas - Marsalet, a former Chief of the Finance Division of the Planning Commissariat in his address at the London School of Economics in 1976. As he points out "nothing could be farther from the truth than to consider the Plan

as some sort of passive instrument of pure prediction. On the contrary, the Plan attempts to correct the disequilibria and modify the trends revealed by the projections. A Plan thus contains targets or guidelines that are defined during its preparation."<sup>16</sup> To quote M. Jacques Delmas--Marsalet again, the Plan is "a complex mixture of forecasts concerning the behaviour of private participants in economic activity and agreements undertaken or guidelines publicly advocated by the authorities".<sup>17</sup>

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## CHAPTER III

# Institutional Framework

One of the most distinguishing features of French Planning, which has attracted widespread attention, is the way it involves thousands of people in various commissions, committees and study groups. The French plans are not just growth models formulated by planners. Instead they are worked out through a long process of studies, discussions and consultations which involve the interaction of a number of organised economic, social and political forces in the country such as: (i) representatives of government departments and agencies, (ii) agriculture, industry and trade associations, (iii) labour unions and associations with social purposes such as consumer associations, (iv) experts nominated by the government, and (v) political institutions including the Economic and Social Council, the National Planning Commission (since 1982) and the Parliament. In the words of Masse, "The French Plan... is not the product of experts or, as one says these days, of technocrats, who like a computer, would design a programme without consideration for opposing points of view or feeling. Rather it is the culmination of a complex procedure in the course of which a large number of interested parties are consulted."<sup>1</sup>

### THE PLANNING COMMISSARIAT

A central position in this process is occupied by a technical body known as the Commissariat General du Plan (hitherto referred as the Commissariat) which came into being in 1946. It has been responsible for preparation of plans and monitoring their progress. It consults hundreds of people, sets up a number of committees, feeds

them with technical information, helps them elaborate their views and so on. By itself, it is a small body of professional experts whose strength in 1983 was around 75 and was much smaller earlier. It has a few horizontal divisions--Economics, Finance and Regional and several vertical sections covering agriculture, industry, energy, transport, etc. Administratively, the Commissariat has been under the direct charge of the Prime Minister except for the years 1954-61, 1976-77 and 1981-83 as detailed below. Since April 1983, it is under a junior Minister who works under the Prime Minister.

### Ministers in Charge of Planning

1946-53	Prime Minister
1954-61	Minister of Finance and Economic Affairs
1962	Back to Prime Minister
1976-77	Minister of Planning
1977-81	Back to Prime Minister
1981-83	Minister of State for Planning and Territory Management
April 1983	Secretary of State (under Prime Minister) for Planning and Territory Management.

The Commissariat is headed by a high ranking officer called Planning Commissioner (Commissaire Au Plan) who is assisted by subject specialists drawn from the academic and administrative fields along with some who have spent years in the Commissariat itself. Several commentators on French Planning have shown how the influence of the commissariat often depends on the personal status of its staff and specially its head. Much also depends on the personal equation of the Planning Commissioner with the President and the Prime Minister. There have been 8 Planning Commissioners by now covering a period of 38 years which gives an average of about 5 years per Commissioner. The earlier Commissioners stayed for long periods even upto 7 years each, as can be seen from details given below:

**Name and Tenure of Planning Commissioners**

(a)	Jean Monnet	1946-51
(b)	M. Hirsch	1952-58
(c)	Pierre Masse	1959-66
(d)	Francois - Xavier Ortoli	1967
(e)	Rene Montjoie	1968-73
(f)	Jean Ripert	1974-77
(g)	Michel Albert	1977-81
(h)	Hubert Prevot	1981--

Most of these specially the earlier ones have been regarded as highly qualified persons skilful at steering the Commissariat around the obstacles that many thought would have destroyed it. The small size of the Commissariat has also been helpful in this process. As Pierre Masse, one of the more well known Planning Commissioners, pointed out "no department, no ministry can reasonably fear that the Commissariat will encroach upon its functions... In this way, the risks of the administrative calamity, that is a conflict of competence, are straight-off reduced... The fact that some of the Commissariat experts are merely on loan from their original departments provides additional security to ministries".<sup>2</sup> The small size necessitates the participation of the ministries in every phase of planning. More particularly the Commissariat is much dependent on the Ministry of Finance for data, information, studies and support. Apart from its small size, the limited power is another important characteristic of the Planning Commissariat which provides a second and greater assurance to the ministries. As Dr. Cohen points out "the Planning Commission (i.e., the Commissariat) by itself exercises no direct powers over the economy. None of the targets and programmes of the plan is enforceable by law. Business (including nationalised industries) is under no legal obligation to follow any of the plans, programmes nor does the Planning Commission have any direct authority within the State bureaucracy over the administration of

the whole range of State economic activities. The coercive implementation Methods of Planning are all under the control of the various ministries (mostly the Ministry of Finance)"<sup>3</sup>.

#### OTHER TECHNICAL INSTITUTIONS

If the Commissariat has been able to provide forecasts and prepare details of planning despite its small staff, it is because of the considerable technical support that it has been receiving from several research institutions. Most of the detailed studies and technical exercises related to a plan are conducted by these institutions which themselves work quite closely with the Commissariat. Of these, by far the most important is the National Institute of Economics and Statistics known briefly as INSEE under the Ministry of Finance. It is a big organisation with thousands of employees and is responsible for processing and supply of data. It develops models and provides forecasts, but its main role is that of a central statistical office. Assistance is also provided by the research and forecasting directorate (DP) of the Finance Ministry. The DP, for example, made significant contributions to the FIFI model. There are three research centres supported by the Commissariat which also play an useful role. These are the CEPREMAP, the CERC and the CREDOC. The first is a centre for the application of mathematical methods to planning where much theoretical research of great interest has been produced though its importance has declined in recent years. The second gathers data on households income distribution and the third does research on consumption patterns. Another institute the CEPII was established in 1978 for collection and analysis of data on developments in the field of world markets. Finally, there is BIPE, a business association sponsored by the government through which the Commissariat started marketing in 1979 economic forecasts prepared largely within the Finance Ministry.

### THE WORKING GROUPS OR COMMISSIONS

It was Monnet, the father of French Planning who had introduced the idea of expert groups first called Modernisation Commissions and now only commissions or working groups for preparing detailed exercises with respect to the plan. Since then these have been developed further, became more diverse and have constituted an integral feature of the French Planning system. Bauchet rightly describes them as "the really original feature of the French system".

The commissions are divided into two categories, horizontal and vertical, the former dealing with certain aspects of the whole economy such as finance, manpower, productivity, research, etc. While the latter with specific sectors of the economy such as agriculture, industry, housing, etc. The number of such Commissions has varied from plan to plan. Thus, the First Plan had 11 horizontal commissions and 7 vertical ones. The Third Plan had 2 horizontal and 17 vertical commissions. The respective number increased to 5 and 22 for the Fourth Plan. The Sixth Plan had 7 horizontal commissions and 18 vertical ones. The commissions organise working parties to deal with specific problems as they see fit. Under the Fourth Plan, the commission dealing with Transformation Industries had 60 such parties. Some 3000 persons served with commissions and working parties on this Plan. The number of persons involved in preparing the Fifth Plan was about 4000. The number for the Sixth Plan was more than 5000 at the national level, though not all of them were involved throughout the plan preparation period running over three to four years. Earlier the commissions or working groups used to meet once for each plan, but subsequently their meetings became yearly.

The commissions/working groups consist of selected representatives of management, the trade unions, agricultural interests, consumer groups, the financial community, government officials, planners and experts. The inclusion of businessmen on these bodies shows the manner in which the existence of the market affects the modus

**operandi** of the French Planning machinery. There is no hard and fast rule as to the proportion in which different groups are represented. The members of the commissions are named by the government upon recommendation of the Commissariat. They serve without pay and in their individual capacities. The commissions are perfectly free to express their opinions on both the present situation and the predicted trends. They are also free to formulate the suggestions and recommendations that they consider appropriate.

Big business formally enters the planning process at this stage. The modernisation commissions/working groups are usually dominated by business and government executives. They have not only numerical superiority, but are better equipped with data and information and come from similar socio-economic and educational background. It has been alleged that the contents of the sectoral plans were sometimes worked out by an informal process of bargaining among the planners, the treasury officials and the big-business.<sup>4</sup> The other groups represented on the commissions, such as the trade unions, have a smaller representation. They constitute about 10 to 15 per cent of the membership and do not exert much influence on decisions. Thus, of the 612 people who participated in the modernisation commissions for the preparation of the Third Plan, 206 were businessmen, 136 civil servants, 13 bankers, 57 trade union representatives, 134 technical experts and 66 miscellaneous. The respective figures for the modernisation commissions for the Fourth Plan were 20 farmers, 437 businessmen, 202 civil servants, 134 trade union representatives and 233 miscellaneous.<sup>5</sup> The relative under-representation of trade unions is obvious even though decisions are not taken by vote. The trade unions have often felt isolated and alienated in groups dominated overwhelmingly by government and business executives. Their actual participation has been even less. The largest union (The CGT) withdrew from participation in the Second and Third Plans. It returned during the Fourth Plan. Similarly, both the CGT and CFDT refused to participate in the commissions constituted for

the Sixth and the Seventh Plans.

According to officials of the Planning Commission, the trouble was that these groups conceived of participation in... the unacceptable terms ... of group interest and fought to dominate the Plan for their own purposes. According to labour union officials, they were not the only ones trying to influence the planning in their interests. They were simply the losers."<sup>6</sup>

Be that as it may, there is a problem of incorporation of workers into the planning machinery. It is to be seen whether the modifications introduced by the socialists bring about any change in this situation.

#### OTHER INSTITUTIONS

Another body which is involved in the planning process is the Economic and Social Council made up of almost two hundred representatives of various interest groups and intellectuals appointed for five years. About two thirds of them are nominated by the groups they represent such as the trade unions, employers, farmers, family associations, artisans, etc., while the other third are nominated by the government. Established in the year 1946, the Council is an advisory body not only on matters directly connected with the Plan, but on economic and social problems in general. It normally meets once or twice a month each for a day or two.

Yet another body in existence for quite a long time was the High Planning Council composed of ministers and heads of various national bodies, such as the chamber of commerce, the employers federation and trade unions groups and so on. Their number was sixty. Though established in 1946, it remained moribund for a number of years. However, it was resuscitated in July 1961 at the time of the Fourth Plan. A somewhat similar but much more powerful body, named as the Central Planning Council was established on September 25, 1974 by President

Giscard at the time of the preparation of the Seventh Plan. Headed by the President himself this body consisted of the Prime Minister, the Minister of Economy and Finance, the Minister of Labour, and the Planning Commissioner as permanent members. Other ministers could also attend for discussion of certain subjects as occasional members. This Council was given the power to orient the work of the Commissariat, to define the objectives or guidelines of economic and social policies to be adopted and decide about the Priority Action Programmes of the Seventh Plan. The council was an extremely powerful and influential body and had the power to reverse decisions taken elsewhere. The establishment of this Council has been viewed by some commentators as an attempt to curb the autonomy of the Plan and its consultative process. It was, at any rate, a government body alone, almost a part of the cabinet. The 1982 reform has done away with this body. Instead a National Planning Commission has been established. The details of this are described in July 1982 Act in Section 3.8 below.

Finally, there is the Parliament where the Plan is submitted for approval and which has to sanction funds for the planned programmes to be executed by the government.

### ROLE OF DIFFERENT INSTITUTIONS

It is obvious from the preceding paragraphs that the French Plan is the joint product of a large number of institutions and individuals. The Planning Commissariat, however, performs a Key role in this. Article 3 of the Decree of January 3, 1946 amended by a Decree of 16th January, 1947 described Planning Commissioner as "the permanent delegate of the Prime Minister to the Ministerial departments for all aspects of the preparation of the Plan".<sup>7</sup> It is concerned with both the drafting and execution of the Plan. Its functions are to analyse the current economic and social situation, to explore the future, to shed light on matters of debate or controversy and to increase the coherence of government decisions



through medium-term plans.<sup>8</sup> The role of planners of the commissariat in the planning process has been very ably summed up by Masse according to whom they "play many roles: they are by turn listeners to and interpreters of society's wishes; they are cross-examiners bringing to light the incompatibility of certain objectives or the gap between the desirable and the possible; they are lookouts examining the clouds on the horizon to take precautions without causing alarm. They are data collectors who are struggling against the centrifugal forces which affect all modern society; tacticians who are bound to take account of the consequences flowing from the assessments; advocates who wish to persuade government, and unions. Finally, the planners are politicians who work toward a compromise which public opinion can understand and Parliament can ratify. In this way the development of the plan results from a complex interplay of action and reaction, in the course of which the planners both give and seek advice. The key to their influence is here. The process of planning is more meaningful than the plan itself".<sup>9</sup>

The Commissariat serves as a meeting place, a round table for different ministries and others. But its own role is not regarded as passive. According to several commentators, it tries to steer the meetings in such a way as to secure the maximum agreement for the list of priorities and programmes that it has. Failing voluntary agreements, the Commissariat with the help of administrative ministries (of which the Ministry of Finance is most important) may exert pressure on the business to carry out the plan's programmes. Similarly, though this is not that important, it can also take the help of big business to persuade or even pressurise the ministries into taking certain actions sought by the plan. Spending ministries quite often try to get the Commissariat on their side as against Finance. Sometimes the Commissariat influences decisions against the wishes of spending departments as in the case of steel. "Planning operates on combinations of these forces and voluntary commitments, the Planning Commission (the Commissariat) organizes and mobilises

these combinations."<sup>10</sup>

Thus the Commissariat is not merely an advisory and consultative body even though it has no power of its own and administers no fund for economic action. It has no power to take decisions, but it can certainly influence them. This is because it is represented in a large number of decision-making bodies such as the Economic and Social Development Fund, and the National Credit Council. However, the extent to which it fully shares in the decision-making or is just informed of this is not known definitely. Even so, it is more than an advisory body dealing solely with 'conception, counsel and appraisal'<sup>11</sup> as Masse had once described but less than a real centre for coordination of economic policy.

Whereas a ministry pays attention to its own sphere, the Commissariat looks at every issue in the light of the overall policies of the government as a whole. It, therefore, draws attention to the implications of one ministry's policies for others and the country as a whole. Coordination of policies and action as between different branches of the government is in itself an important function which is facilitated by the Commissariat.

The Commissariat works in close cooperation with the Finance Ministry and various other governmental departments. It has to do so for the sake of ensuring the implementation of the plan since by itself the Commissariat does not exercise much direct powers over the economy. The targets and programmes of the plan are not enforceable by law. Powers of implementation are all under the control of the various ministries particularly the Ministry of Finance.

The formulation of every plan, therefore, is associated with protracted consultations between the Commissariat and the Ministry of Finance with the government sometimes acting as arbiter, and sometimes playing a purely passive role.<sup>12</sup> The relation between the Commissariat and the Ministry of Finance has been a subject of much study and inquiry. I would not like to go into the details of this except for making an observation that

failing reconciliation, the Ministry of Finance is likely to have an upper hand because it has control over the purse. While preparing the Plan, the Commissariat with the help of the spending ministries and the concertation bodies does sometimes force the hands of the Finance Ministry, but at the time of implementation the budgetary authorities reduce the effective commitments to the level that they consider to be more realistic.<sup>13</sup> The introduction of the PAP in the Seventh Plan and of PPE in the Ninth Plan has led to a further strengthening of the links of the Commissariat with the finance and administrative ministries.<sup>14</sup> Moreover, the scope of Finance Ministry's activities is wider since it is responsible for all economic policies including those dealing with sectors not included in the Plan. In addition to longer-run programmes, the Ministry of Finance is responsible for short-run economic policy as well. According to Dr. S.S. Cohen, "lack of coordination between short term policy and the middle term programmes of the Plan is the most serious source of difficulty in relations between the Treasury and the Plan."<sup>15</sup> However, quite often the Treasury and the Plan agree on several issues because officials of both come from the same socio-economic background and are exposed to the same education in the 'Grand Ecoles'. "The Treasury has been the most powerful advocate of economic planning. The enthusiasm of the new generation of higher Treasury officials for planning has been the most important factor in the success of French Planning."<sup>16</sup> Most commentators on French affairs have shown how the administrators in the Finance Ministry after World War II have been men of vision and new ideas and always receptive to planning. They became an initiating force with commitment to economic rationalism, full employment and rapid growth. This changed attitude became an important factor in the initial success of French planning.

This change in attitudes has been traced to the drastic reform in the recruitment and training of higher civil servants that took place after World War II. This led to an increase in horizontal mobility within the

upper echelons of the civil service. There was a change in curricula and method of teaching which brought about a change in the attitude of the administrators. They came to hold the view that social problems are amenable to technical solutions. Economic rationalism, pragmatism, and efficiency rather than ideology became their guiding principles. In short, they were turned from bureaucrats to technocrats. The ideas that influenced them were the same as those propagated by the Commissariat. There was thus a meeting of minds between these two crucial organs of the government.

As regards the role of the so-called modernisation/planning commissions which constitute a special feature of the French Planning system, these are essentially advisory bodies. They need not even take specific decisions. They, however, provide an opportunity to arrive at national consensus on various issues since they are meeting grounds for interest groups and for a discussion of policy problems. Several advantages flow from this. First, the deliberations in the commissions/working groups assist the planning authorities on the technical level by indicating production possibilities and market trends for a number of industries and provide information about structural changes and the conditions governing investment and finance. The exchange of information and ideas between the different participants who make decisions in their own isolated fields, can at a later date, have an influence on the decisions taken by them. Secondly, "their concerted action is intended to yield information concerning the main economic and social aspirations of the nation and to locate the points of agreement and divergence among the committee members as regards the guidelines to be provided". Thirdly, these provide an opportunity to know the reactions of concerned parties to proposed policy changes. Fourthly, meetings of these commissions provide a forum for resolving or at least reducing the conflicts in the interests of different groups of which the big business and the Ministry of Finance are by far the most important. French society has been a divided society. There have

been various groups from left to right. The discussions of the commissions enable the participants to speak to each other and thereby help in reducing the conflicts. It is this aspect which has led some analysts like Dr. S.S.Cohen to describe the French Planning process as a "bargaining process in which the contents of the plan are worked out among the three principal parties: the Ministry of Finance, Big Business and the Planning Commission".<sup>17</sup>

The role of the modernization/planning commissions is not that pervasive as it had been made out to be in the early years of French Planning. As Dr. Vera Lutz points out "it seems fair to conclude from the various published accounts, and from the privately expressed views of people who have served on the Commissions, that the Plan, so far as its most significant figures (i.e., the broad aggregates, as opposed to the narrower sub-aggregates) are concerned, is essentially the work of the Commissariat and the services mentioned above, and that the role of the Modernization Commissions in this particular connection is comparatively small, even if they serve other purposes which will be described below. This would mean that the key items in the medium-term forecasts really are made by the authorities, which thus assume a responsibility for the whole set of detailed forecasts based upon these items."<sup>18</sup> There have been several occasions when the recommendations made by these commissions have been amended, sometimes substantially, as for example in the case of steel when a decision was taken to modernise the industry as against the more or less status quo policy of steel industry and steel ministry who dominated the modernisation commission.

Several factors led to a gradual decline in the role of this body from the late sixties. During the period of the Fifth Plan it became clear that 'concertation' (co-operation) could not lead to national consensus. Its role was only to bring together the points of view of the different economic and social forces.<sup>19</sup> The role of these commissions declined in one more respect during the seventies. The task of coordinating industrial policy

was given by the Prime Minister Barre to the Ministry of Industry which, therefore, emerged as the main channel of contact between the industry and the government. This was a major development in view of the importance of the industrial sector in the French economy in general and French planning in particular.<sup>20</sup> The seventies also witnessed the growing importance of econometric modelling for both medium term forecasting and policy. Modelled forecasting might have left less freedom for bargaining. This might have been an additional reason for the decline in concertation between social partners.<sup>21</sup>

The process of preparation of the Seventh Plan resulting in Priority Action Programmes led in effect to a further decline in the role of these commissions as pointed out by Prof. Hayward. To quote him "While an emphasis on the consensus building role of the modernization commissions had always been accorded a disproportionately large place relative to their importance in decision-making, in the new arrangements envisaged for the Seventh Plan their role was to be scaled down dramatically especially in the second, programming phase of the process. The commissions would continue to be consulted during the first, guidelines phase of the planning process, when the secretive ministries could be induced to disgorge some information, but once the government had made its major policy choices, the detailed programming would be left to the ministries and agreed with the budget. The major shift in the subject matter of the planning process away from planning the whole economy towards programming part of public expenditure was thus accompanied by a shift away from the emphasis upon the social partners--always prone to make excessive demands--towards an increased stress on the public administrators with no mean appetites of their own. In turn, this presupposed that the ministries would be willing to engage in an exhaustive medium-term programming of their activities of an entirely novel kind and the PAPs were to be the instrument of bringing this major change about".<sup>22</sup>

The part played by the Parliament in the planning

process has been limited. The First Plan had been launched without any parliamentary debate or approval. Funds for the projects of this plan were voted by Parliament in 1947 along with the annual budget presented by the Ministry of Finance. The Second Plan was approved by the Parliament about 3 years after it was launched. The Third Plan was not submitted to Parliamentary discussion or approval. It was promulgated by an executive order. The Interim Plan (1959-60) was also put into effect without taking Parliament into confidence.

A change is, however, noticeable from the period of the Fourth Plan which was submitted to the Parliament before it was launched. And a few minor changes were made by it in the Plan. The Parliament also directed the government to submit to it the 'main options' involved before giving its directives to the Commissariat in future.

For the past few years, a practice has developed for the government to modify the Plan by incorporating some of the suggestions made by the Parliament. "Clearly only modifications that in no way jeopardize either the overall coherence or the financial coherence of the Plan are introduced in this way. The rectified plan is then voted by the Parliament, by a simple majority in the form of a bill of approval."<sup>23</sup>

Parliamentary control is also exercised indirectly through credit authorisations needed for implementing the Plan. However, the introduction of the PAP for the Seventh Plan has tended to reduce this power of the Parliament. "The adoption of the programmes in no way dispenses the Parliament from having to vote the credits reserved for these programmes each year, for each of the five years of the Plan's duration. But, these 'political commitments' are quite binding in that the government undertakes to give budgetary priority to, while the Parliament undertakes, in principle, to vote, the credits required for the completion of the programmes."<sup>24</sup>

However, as M. Jacques Delmas-Marsalet rightly points out, "it is the government that has the final say as to the exact content of the Plan."<sup>25</sup> The government exer-

cises this influence through a number of ways and at different stages during the preparation of the plan. It gives its directions to the Commissariat at the preparatory, option and final phases of the plan. It influences the Plan when it is under discussion in formal bodies like the Central Planning Council and now the National Planning Commission. The views of various ministries are taken into account while finalising the draft plan. Further the draft plan is examined and approved by the Cabinet before it is forwarded to the Parliament.

Within the government, it was the bureaucracy which had a major say in the planning process in the early years. The role of the politician was very much limited specially during the period of the Fourth Republic characterised by political instability. However, political stability under President de Gaulle and his successors caused the Plan to be identified with government. "From the Fifth Plan and especially from the Sixth Plan, the idea of consensus grew weaker and then disappeared completely. It has been replaced by a realisation that the Plan represents the government's medium-term economic and social policies and is thus a case of majority imposing its wishes on a minority, even if in a politically liberal society this involves taking considerable notice of the minority's aspirations and claims. Ideological debates become concerned with the content of the Plan, especially on the Sixth Plan's industrialisation priority.<sup>26</sup> So long as the same party was in power, this process did not affect the continuity of the plan even when Presidents or Prime Ministers changed during the operation of a specific plan. But with the change of the party in power in 1981, the Eighth Plan formulated by the previous government was abandoned and an Interim Plan for 1982-83 was adopted. This has been followed by the Ninth Plan for the period 1984-88.

#### REGIONAL PLANNING PROCESS

So far, we have described the planning process only at the national level because of the extremely centra-



lised nature of French Planning. However, efforts to decentralise the process have also been made from time to time. For example, under an Act passed in July, 1972, the regional bodies were to be consulted by the national planning commissions on national choices to be made in the second phase of planning and more particularly on regional development programmes. The new socialist government has introduced more changes. Details of all such efforts to bring the regional agencies in the ambit of the planning process are discussed in another chapter.

### PERCEIVED DEFICIENCIES AND THE NEED FOR REFORM

The election of Francois Mitterand as the President of France turned out to be a significant event for economic planning in the country. The new government found the then prevailing planning process deficient on several counts some of which were related to the institutional framework of planning.<sup>27</sup> In the first place, the macro economic models which had gradually become very sophisticated failed to take into account the structural changes of the French economy. Secondly, social consequences of economic policies were not found to be taken into account. There were several adverse social effects which were not properly handled. Thirdly, the discussion process which is a distinguishing feature of the French planning system was found to have become less comprehensive and important. It was no longer confined to the Planning Commissariat. Discussions between social partners were carried out in a more and more divided manner in each ministry. Moreover, the increasing economic liberalism and the need to consider the world market as the basic regulator of the French economy was reported to have discouraged labour unions from participating in the discussions. Fourthly, the liberalisation of the economy also affected the coherence of the Plan which had become more and more complex. Coherence of public investment was further weakened by inadequate liaison between the objectives of the Plan and the annual budgets of the State. The actions of each ministry became more

and more determined by the stakes of budgetary negotiations. The weak linkage between the Plan and the Budget is reflected in the following observation reported in the paper by Fraix and Gentot, "the Plan was invested with all the hopes and the Budget responsible for all the disappointments".<sup>28</sup> Finally there was too much of concentration of power in the government at Paris. A need was, therefore, felt for involving local and regional territorial units on the one hand and representatives of people at those levels on the other in the planning process. "Some of the principles on which French Planning were constructed were not in question: correcting the insufficiencies of the market by making it compulsory to consider the decisions of spoken language; maintaining the liberty of choice of the economic agents while inciting them to execute the Plan. But it became urgent in 1981, in the face of serious unemployment and economic difficulties, to renew the instruments of the medium-term policy of the government, like giving new means of action to all those responsible for economic and social activities. It was clear that planning needed a breath of fresh air".<sup>29</sup>

#### THE JULY 1982 ACT

The new government, therefore, decided not only to strengthen the plan but also to modify the planning process so as to bring about more democratisation, greater decentralisation and better implementation. Accordingly, an Act was passed on July 29, 1982. The new plan was intended to be not just a State Plan "but as a set containing, in addition to the National Plan, 26 regional plans, local plans and a substantial number of enterprise plans, tied together by the possibilities of jointly implementing them".<sup>30</sup>

National planning as per this Act would consist of two successive laws. The first law would indicate the objectives and strategic choices of the country as well as the important measures which would be proposed for getting the results. This would indicate the fields in

which negotiations would be undertaken between social and economic partners in keeping with the objectives of planning. The second law would spell out the legal, financial and administrative measures for attaining the objectives of the first law. It would fix priority programmes of execution of planning and would provide funds for their financing. It would also indicate the object and scope of planning contracts that the state would make with regions and others.

### Democratization

One objective is to increase the power of popular representatives over plan formulation and reduce that of experts and technicians including the Planning Commissariat. A new institution known as the National Planning Commission has been created. It consists of representatives of the regions and of the organisations for workers, employers, farmers, small business, distributive trades, the professions, public sector industry, banks, cooperatives and cultural bodies. It is chaired by the Planning Minister who is the only representative of the State Government on the Commission. Several of these groups were associated earlier also through the various vertical or horizontal planning commissions. But now the politicians have also been invited and this makes the exercise more democratic. Further these representatives are associated with highest planning body and not merely with various committees or working groups, etc. The Commission is to be appointed 18 months before the entry into force of each plan and for a term of five years. Its functions are to prepare the plan and review the preceding plan. The responsibility for investigations and deliberations preparatory to plan formulation has been given to the Commission--a task which was earlier performed by the Commissariat. Thus a broad base of national opinion and implementing agencies have been given the responsibility of formulating the plan. This is to be further reinforced by consulting regions before finalising the plan. These provisions do not disturb the earlier consultative mechanisms through the plan commis-

sions/committees/working groups which continue to function as before. As before, the government remains responsible for the plan since it lays it before the Parliament. The National Planning Commission is consultative body where each member is free to think and act as he chooses. The effectiveness of such a body would, therefore, obviously depend upon the extent to which consensus can be reached on various issues. The actual experience in this respect deserves to be watched carefully.

The Commissariat, of course, remains intact, but it serves as the secretariat to the National Planning Commission and works in accordance with the guidelines provided by it. The effectiveness of the Commissariat's work hinges on its ability to take account of the views expressed in the Commission. The Commissariat also serves as a secretariat for the government. And if there is no consensus in the Commission as is likely and as has been the case so far, then the Commissariat is likely to be influenced more by the government than by the Commission.

The Economic and Social Council continues to exist. However, its members are not likely to feel happy over the constitution of the National Planning Commission consisting of more or less the same social partners. There is clearly a good deal of duplication which could have been avoided either by abolishing the Economic and Social Council or by giving it additional responsibility, of preparing the plan instead of creating a new institution. According to the existing statutory provisions, the National Planning Commission deliberates over the plan before the government makes a choice whereas the Economic and Social Council, does so after the choice has been made by the government. The Economic and Social Council decides on the basis of vote whereas there is no provision for voting in the National Planning Commission. However, the advice of the Economic and Social Council, like that of the National Planning Commission is also advisory. The government, no doubt, modified the Ninth Plan on the basis of their critical report. But they did

it only on secondary aspects.

### **Regionalisation**

The representation of the Regional Presidents (who are elected representatives of their regions) of the National Planning Commission is intended to ensure that the preferences and expectations of the regions are taken into account during formulation of the national plan. The most significant feature of the regionalisation process is that the regions have the freedom and responsibility to formulate their own regional plans. Such a provision, however, has the risk that some inconsistency may arise between regional plans and the national. "Provision has, therefore, been made that the minister for the plan assesses the consistency of regional plans both with one another and with the national plan, then reports to the government on fields in which adjustments may be or are required. Negotiation of plan contracts should encourage any necessary adjustments without in any way dictating to the regions."<sup>31</sup> Moreover, the regions being dependent on the centre for funds would be amenable to its control. The details of regionalisation are discussed in Chapter VII.

### **Implementation**

The association of representatives of regions and other economic interests in the plan formulation process as indicated above is expected to facilitate better implementation. Besides, the Act provides for taking up of priority programmes and programme laws as a part of the plan targets. Most programme laws would be approved when the Second Plan Law, or a rectifying Plan law, is being discussed. Another feature of the new planning process is the provision made for making of planning contracts between different implementing agencies such as the state, the regions or private agencies for execution of specific programmes or schemes. Entering into plan contracts will place the government under the obligation to provide the means, both financial and regulatory or administrative, for implementing them. Contracts can be

made between central government and regions, central government and public undertakings or private firms, also between central government and local authorities other than regions, provided that the regions are informed beforehand, and between central government and occupational groupings or any other legal persons. Similarly, the regions can enter into contracts with each other or with public or private enterprises, local authorities within their purview or any other legal person. Contracts once made may be adjusted later on in the light of changes in circumstances. Entering into these contracts implies a moral commitment on the part of the government to carry them out. Since the amount of funds involved is not large, it should be possible for the government to assure availability of funds for a number of years while respecting the annual budgeting principle.

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## CHAPTER IV

# Plan Formulation Process

National Planning is a complex process. It embraces an overall and integrated view of the economy and need to take simultaneous action in several inter-related directions. Its formulation, therefore, requires interaction between different planning institutions described in the preceding chapter, on the basis of information and studies depicting the behaviour of the economy in sufficient detail with implications of proposed planning options. It is obvious that the preparation of such a framework is a time consuming process and would require the use of planning techniques. In this chapter, we give a brief description of these aspects of French Planning.

### PLAN MODELS AND PLANNING TECHNIQUES

The French started with rudimentary planning methods and built up sophisticated models only gradually. No formal models were used till the 1970s. There was not even an effective national account system in the 1940s when planning started. So targets of investment and production were worked out independently for each sector by conducting basic sector analysis (project choices). It was in the later part of the fifties during the period of the Second and Third Plans that a system of national accounts was properly established and simple input-output tables were constructed. The use of input-output tables enabled the planners in the Third and Fourth Plans to develop consistent targets for different industries by taking account of inter-industry linkages. The Fourth Plan went a step further by making a first attempt at a forecast financial operations table. Besides using the above methods, i.e., input-output technique, overall



economic table, etc., the Fifth Plan also made use of elementary econometric methods for the first time. It was, however, not possible to examine a wide range of possible futures because the study of variants had not been made sufficiently fast.

It was from the Sixth Plan onward that attempts were made to model behavioural relationships. Both the Sixth and the Seventh Plans used formal and somewhat rigid econometric methods within the framework of a macro-economic model known as the FIFI (Physico-Financier) model with about 2000 equations. The Sixth Plan forecasts were based on the macro-economic projections from this model. Designed for an economy exposed to international competition, this model had been developed in the late 1960s under R. Courbis on the basis of his small open economy model which assumed that output was determined by world demand and relative competitiveness alone. This assumption proved to be highly controversial. Another objective of the model was to study the influence of economic policies (relating mainly to public finance) or foreseeable uncertainties on macro-economic trends. The FIFI model, however, had certain limitations one of which was that it was essentially static. It gave a picture only of the terminal year of the plan assuming smooth trajectories between the base and the terminal years. Further, the model distinguished only seven sectors and hence did not provide enough degree of detail. Social variables were largely excluded. Only those variables which could fit within the framework of national accounting flows were included.

Several other techniques were also used along with the FIFI model. These included retrospective studies to identify past trends and shed light on the underlying mechanisms operating in a particular sector; partial simulation models which were similar to the FIFI but dealing with specific problems and often based on the mechanisms revealed by a retrospective study; simple projections; and decision studies to test the effects of specific policies on the economy.

The FIFI model was somewhat modified for use in the

Seventh Plan. In the late 1970s a new forecasting model known as the DMS (Dynamique multi-sectorial) was developed and used for the Eighth Plan. This model has about 2000 equations of which about 1400 are identities. It has more conventional Keynesian properties. Unlike the FIFI, this model is a dynamic one. It plots a path for the economy over time.

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The first version of the DMS model was developed from 1974 to 1976 at the INSEE.<sup>1</sup> Originally built in the light of the former system of French National Accounts concepts and series which changed in 1975, the model was modified to suit the requirements of the new National Accounts framework. The DMS is an annual simulation model of the French economy, without any regional breakdown. The institutional sectors described by the model are enterprises, households, government, financial institutions and the rest of the world. Whereas each of the other sectors is treated globally, the enterprises sector is broken down into twelve sub-sectors consisting of: (1) agriculture, (2) food industries, (3) energy and utilities, (4) manufacturing: intermediate goods, (5) manufacturing: investment goods (including cars and other household durables), (6) manufacturing: consumer goods, (7) construction, (8) transportation and communication, (9) housing services, (10) other non-financial services, (11) trade, and (12) financial services. Complete accounts (including income flows, taxes, subsidies, interest paid, etc.) are described for each of these sub-sectors as well as for the large public corporations and for the four other sectors. Flows of goods and services are linked through an input-output table. Behavioural equations have been estimated mainly by ordinary least squares using annual series, generally national accounts series. Given the demand by commodities, gross output by industries is determined through an input-output table. For each of the three manufacturing industries, the capacity utilisation is derived from actual production and capacity. Employment is then derived from actual production and wage rates and prices from unit labour costs and

capacity utilisation. The calculation of complete accounts for institutional sectors and sub-sectors results in the determination of households' disposable income and of enterprises' profits which, together with prices, are the main explanatory variables for demand determination.

The use of models like the FIFI and the DMS has improved the efficiency of plan formulation process by providing more detailed information at faster rate to administrators and others involved in the task of preparing the plan. For example, advances in computer simulation techniques in the late 1970s greatly assisted the work of the Eighth Plan working groups or commissions. It has been noted that the commissions dealing with social policy had access to econometric models that allowed them to simulate instantaneously the economic and financial consequences of any proposed measure whereas hitherto social and economic deliberations had been rather separate. Most strikingly, the commissions made use of the far greater flexibility in simulating on the DMS alternative dynamic time paths and policy proposals. The Development and Employment Commission explored possible paths to higher employment in as much detail as they could<sup>2</sup>. At the same time, modelled forecasting might have reduced the field of 'concertation' between government, and social partners by leaving less freedom for bargaining.<sup>3</sup> Models do not take into account bargaining. Social partners would accept the logic and structure of a model but not its assumptions. It has also been reported that several participants felt dominated by the models and overwhelmed by the mass of data provided by them. It appeared to them as if the initiative passed from the hands of the decision-makers to those of the technicians.<sup>4</sup>

Ironically, the increasing sophistication of econometric modelling for both medium term forecasting and policy took place at a time when importance of planning in general and that of planning quantitative and precise objectives in particular declined. Consequently, the plan forecasts came to have substantially less opera-

tional significance in the 1970s than the earlier ones. Although the macro economic and implied sectoral projections continued to be made, they were essentially just one input into the process of discussion rather than a direct basis for action.

Another development in recent years has been in the direction of making long term studies, so as to set the medium term plan in some longer term context. Its beginning can be traced as far back as the period of the Third Plan (1958-1961) when a ten year projection in volume terms had been prepared. This dealt mainly with total population, working population and per capita output. But they were essentially of the nature of extended macro-economic trend explorations. It was during the Fourth and more particularly the Fifth Plan that an attempt was made to build a logical structure for long-term studies. This was further developed during the Sixth Plan. However, a proper integration of long-term studies with the medium-term plan has not taken place. And the Seventh, Eighth and Ninth Plans were prepared without long-term quantitative perspective.

A summary statement of the techniques used in the First to Seventh Plans is given in Table 1.

What has been the role of planning models in the process of plan formulation? And how do the model outcomes get deflected by the political process through which they have to pass? It may be noted that the results of the models provided the basis for planning but they were not the plan. The models figured out the implications of different policy options. The extent of changes introduced has depended on the character of the politicians and their ability or willingness to understand the implications of coherence. French Plans have often been an output of the administrative system as highlighted by the fact that it was not at all affected by political instability which characterized the period of early plans during the Fourth Republic.

Table 1 THE DEVELOPMENT OF PLANNING TECHNIQUES  
TO ANALYSE THE PROBLEMS REVEALED BY THE  
FIRST SEVEN FRENCH PLANS

Plan	Problems to be solved	Techniques
I. (1946-50) extended to 1953)	Reconstruction. Basic infra-structure.	Basic Sector Analyses (Project choices).
II. (1954-57)	Getting the country out of a situation of shortages.	Construction of a national accounting system, and of an input-output table (TEI) for 1951.
III. (1958-61)	Gradual movement towards an exposed market economy.	Projection of the TEI (plus an experimental over-all economic table (TEE) for the Third Plan).
IV. (1962-65)	Entry into the Common Market	TEI and triangular TEE, plus a first attempt at a forecast financial operations table (TOF), and regional facility analyses.
V. (1966-70)	Competitiveness. Emphasis on equality and living conditions.	TEI+TEE (at relative prices) + TOF. Manual projections. Regional demographic projections. Sector account projections.
VI. (1971-75)	" " "	FIFI (current prices) + TOF. System of decentra-

Plan	Problems to be solved	Techniques
		lised models. Long-term studies in different fields. First attempts at 'growth paths'.
VII. (1976-80)	Quality of life, and the environment; influence of the international situation. Spatial-national interactions, and local problems; search for common policies. Short-term, medium-term linkages.	FIFITOF. REGINA. MOISE (for international hypotheses). Analysis of the influence of money. Techniques for analysing short-term, medium-term, Linkages.

SOURCE: David Liggins, **National Economic Planning in France**, Saxon House, London, pp. 144-45.

### STAGES IN PLAN PREPARATION

The preparation of a plan is as complex as the plan itself. Several agencies play their part in this exercise. Work on plan preparation begins with alternative forecasts of the prospects of development of the economy. Sometimes, as in the case of the Fourth, Fifth and Sixth Plans, they are made first for the long-term (10 to 15 years) and then for the medium term covering the period of the plan. They present several hypotheses each corresponding to a different rate of growth and indicate

which is the most feasible. Work on this is undertaken by the Planning Commissariat along with the INSEE and other technical bodies. Thereafter, these forecasts are submitted to the government which decides on a growth rate and communicates the same to the Commissariat. At this stage the government also adds directives covering any other objectives such as those related to balance of payments, education, housing, urban development, etc. The issue of these directives by the government represents an important stage in the planning process which has been described as 'watershed' by Hackett and Hackett. Before this, work is essentially one of forecasting and facilitating the choice of ends and means by competent bodies. After this, the detailed framing of the Plan starts. The vertical commissions within the Commissariat set out to prepare detailed and consistent targets by sectors and industries. Terminal year targets by sectors and industries are broken down and built up again by an iterative process to obtain consistency, shuttling back and forth between the horizontal and vertical commissions and working parties of the Commissariat and the Commissariat staff itself. This is followed by making the final synthesis, resulting in the preparation of the draft plan by the Commissariat for being sent to the government. Controversial points of policy, if any, are settled by the government. The President, the Prime Minister and the Cabinet are consulted on several occasions before the draft is completed: they usually know what the draft would be like. However, the draft is subsequently discussed in the Cabinet and necessary modifications made. After this the draft goes to the Economic and Social Council and then to the two houses of the Parliament, though this had not been done regularly in the case of earlier plans. In the case of the Fourth Plan, the draft had been sent to the High Planning Council before it went to the Economic and Social Council. There has been a slight change since 1982 after the constitution of the New National Planning Commission under the July 1982 Act. The draft Ninth Plan was prepared under the guidance of the National Planning Commission itself. Subsequently it

was sent to other authorities for their approval.

Under an Act passed by the Parliament on August 4, 1962, the preparation of the Plan was split into two stages: the first phase resulting in government submitting to the Parliament a bill containing the main options governing the drafting of the Plan and the second phase resulting in the submission of the Plan proper to the Economic and Social Council for its opinion and to the Parliament for its approval. The Fifth and subsequent plans followed this pattern. Since a lot of work is done before the options phase, Dr. David Liggins<sup>5</sup> has rightly broken the plan preparation process into three main phases: (i) the administrative phase, (ii) the options phase, and (iii) the plan specification phase. The tasks performed during the first phase include preparing an outline of framework of analyses and discussions for the planning commissions and their study groups, and conducting exploratory technical exercises with the help of planning models. Most of this work is of a technical nature and takes place mainly within the Commissariat, the National Institute of Statistics and Economic Research (INSEE) and the Ministry of Finance's Forecasting Directorate (DP). The options phase starts with the departure account which gives a projected outline of the economy in the terminal year of the plan if past trends persist and no policy modifications are introduced. This information is placed before the planning commissions working groups which discuss them and explore the future by getting prepared several variants of the departure account by changing some of the initial assumptions and exogenous variables and parameters deliberately modified to produce a better picture than that revealed by a projection of past trends. They also propose any new policy considered desirable. Based on them, the planning commissions/working groups submit interim reports from which the Commissariat along with the relevant ministries prepare the basic options to be presented to the Parliament through the government and the Economic and Social Council. The plan specification phase starts after a decision on basic options is made by the Parliament. At



this stage, Planning commissions/working groups are asked to investigate the conditions necessary for the fulfilment of the options and to recommend action programmes for realising these conditions. The Commissariat then finalises the draft of the plan after taking their reports into account. The document is then sent to the Parliament through the government and the Economic and Social Council.<sup>6</sup>

No substantial change has been introduced into this process even after the socialists came to power. The July 1982 Act also contains the principle of approval of the plan in two phases. Under the new procedures, the first plan law will define strategic choices and the objectives and the second, six months later, will define the legal, financial and administrative measures to be taken for achieving the objectives<sup>7</sup>. The novel features of the new law belong mostly to other aspects of the planning process. The responsibility for finalising the draft of the plan now lies with the National Planning Commission which is assisted by the Commissariat. The details have been spelt out in the preceding chapter.

#### PLAN PREPARATION PROCESS--AN ILLUSTRATION

The understanding of various processes involved in the preparation of a plan would be facilitated if we illustrate them with reference to any particular plan. We take the case of the Sixth Plan. The preparation of this plan took over four years involving more than 5,000 people at the national level. Of course, all of these people were not involved for the whole of the four-year period. The three phases of the plan preparation can be broken down as:

- (i) the administrative phase from early 1966 to mid 1969,
- (ii) the options phase from the autumn of 1969 to June 1970, and
- (iii) the plan specification phase from autumn of 1970 to July 1977.

The administrative phase started barely one year after the end of the preparation of the previous plan. Its task was to indicate the subjects that the plan commissions/working groups were supposed to take up for discussion in two and a half years' time. This phase was also to include a considerable amount of exploratory technical work for providing these groups with the fullest possible information about the problems most likely to be met during the period of this plan (1971-1975), and beyond. This information was supposed to be generated mainly by the FIFI model. Hence work on this started in earnest in the autumn of 1966. At the same time, work on long-term studies was also initiated and got under way in the autumn of 1967 and continued upto early 1969.

Most of the work described above was of a technical nature and took place mainly within the Commissariat, the National Institute of Statistics and Economic Research (INSEE), and the Ministry of Finance's Forecasting Directorate (DP). In November 1967, the government was consulted on the general timetable of the work and the broad outline of the programmes of the plan commissions/working groups. In July 1969, the Commissariat reported to the government on the problems which the 1975 projections (produced by the FIFI model) and the long-term studies had highlighted, and asked for guidelines to feed into the options phase. The list of members, programmes of work of the plan and commissions/working groups were finalised by the autumn of 1969.

The options phase started with the departure account, a picture of 1975 drawn up with the aid of the FIFI model. It was the job of the plan commissions to search for solutions to the identified problems, mainly by using the FIFI model and to produce variants (which are projections of the economy) by changing some of the initial assumptions and exogenous variables and parameters so as to have a glimpse of different pictures of 1975. The plan commissions submitted intermediate reports on their discussions in February 1970, and from these documents the Commissariat and a number of ministries prepared a

preliminary report on the options. Three basic options (characterised by annual growth rates of the economy of 5.5, 6.0 and 6.5 per cent) were being considered at that time, and all of them were submitted to the government in March 1970. After modifications, the report was passed on to the Economic and Social Council and finally to the Parliament, which approved the options account in June 1970 with a growth rate of 5.9 per cent.

Thereupon in the autumn of 1970, the plan specification phase started. The plan commissions/working groups were reconstituted, and asked to investigate the conditions necessary for the fulfilment of the options account, and to recommend action programmes for realising those conditions. They completed this work in early 1971. After this the same stages as were followed in phase II were repeated, i.e., the Commissariat sent summary report to the government, which was then passed on to the Economic and Social Council and then to the Parliament which approved the plan in June. Thus the plan which was supposed to start from January 1971 was delayed by more than six months and became a law on July 15, 1971.

There were the following 25 plan commissions involved in the second and the third phases of plan preparation.

- (i) Seven horizontal commissions:
  - General Economic and financing (CEGF),
  - Employment,
  - Social benefits,
  - Research,
  - Economic information (CIE),
  - National Commission for Regional Development (CNAT),
  - Overseas departments;
- (ii) Nine commissions dealing with productive sectors:
  - Agriculture,
  - Agricultural and foodstuffs industries,
  - Energy,
  - Industry,

Transport,  
 Communications,  
 Commerce,  
 Handicrafts and artisan industries,  
 Tourism;

- (iii) Nine commissions dealing with social functions:  
 Rural affairs,  
 Towns,  
 Social action,  
 Sport and socio-educational activities,  
 Cultural affairs,  
 Water,  
 Education,  
 Housing,  
 Health.

The number of vertical commissions which deal with productive sectors was reduced during the Sixth Plan. However, several sectoral committees were created for discussions on specific sectors. For instance, there were 22 such committees under the Industry Commission, and four under the Energy Commission. On the other hand the number of commissions dealing with social problems increased. Several of these dealt with problems that were the responsibility of more than one ministry, thereby giving more opportunities for increased co-operation. In addition, a number of inter-groups were set up to deal with special 'horizontal' problems, including leisure, old people and handicapped people, etc. Also a large number of administrative work groups were formed, to coordinate the policy studies, sector analysis and other works being done by the newly created research and forecasting departments in the ministries. This resulted in greater administrative 'concertation'. However, the key role still lay on the Ministry of Finance (MEF) and the Commissariat (CGP). Therefore, a special structure of Plan Finance (CGP-MEF) work groups was set up. Their primary aim was to avoid, or at least open channels for the resolution of the traditional rivalry between them

and evolve a consensus. The structure of the Plan-Finance groups was extensive and complicated: there were two main groups, with a common secretariat provided by the INSEE and the DP, eight specialist groups, and nine sub-groups. Their job was to estimate the feasibility and significance of the departure account. They started in early 1968 but were cut short by the events of May-June 1968 which took the senior members away to other duties.

Subsequent developments such as the November 1968 policy measures to deal with the monetary crisis, the devaluation of the Franc in August 1969 did not augur well for the Plan-Finance groups. There was insufficient time for them to consider policy questions, or even to put forward a summary of their views for the benefit of the other participants. Nevertheless, these groups produced a lot of interesting material and more importantly they encouraged the use of forecasting and simulation models.

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## CHAPTER V

# Plan Implementation Process

The plan figures are an amalgam of forecasts and targets and fulfil the tests of consistency. But do they have any practical significance? What mechanisms help to ensure that the Plan would be implemented when the planning authority has no controlling power over the economy? Individual operators need not follow the plan's forecasts. They are free to proceed on the basis of current market developments and their own estimates of what is going to happen in future. Divergence between the plan targets and actual achievements is, therefore, quite natural and, as seen earlier, has taken place in several sectors from time to time. But it would be wrong to infer from the above that there is absence of any implementation mechanism. There are several ways through which the execution of the plan is facilitated though these are not perfect.

### OVERALL MEASURES

In order to achieve its objectives, the plan uses means of action as are normally available to the authorities. In this respect, the plan is primarily a plan of action for the state. In certain areas the plan merely indicates the broad lines of policies to be followed in order to achieve a given objective without going into the details of the measures to be taken. This was the case in the Seventh Plan with regard to measures to be taken to ensure non-inflationary financing of investment. The plan indicated that achievement of this aim would require that the financing of companies must primarily be encouraged through capital increases while at the same time stimulating greater investment of savings in

shares.<sup>1</sup>

Several experts regard the plan itself as an instrument of implementation. A plan which is well prepared and whose various targets and forecasts are internally consistent, may induce economic agents to follow it in their own interest. The process of consultation in the modernisation/planning commissions involving those responsible for execution of projects/programmes in the government, public and private sectors also tends to facilitate implementation. As the Second Plan remarked "very often action results from the consultation itself."<sup>2</sup> The plan implies some sort of "an informal agreement among autonomous decision-making centres (government agencies, public enterprises, private firms). Each of them commits itself morally to carry out its share of investment financed by means mentioned in the plan".<sup>3</sup> In other words, there is a tendency for self-implementation specially when objectives like modernisation, productivity and growth are in the interests of the enterprises themselves. But sometimes, under the influence of group dynamics, the social partners would agree in meetings but when they go back to their respective desks, they may follow their original policies. Also, after a lapse of time, situation may change justifying adoption of an approach different from the one agreed to in a meeting of the commission.

Implementation of the Plan is said to be facilitated by the representation of the Commissariat on most of the policy-formulation and execution bodies of the government dealing with economic and social matters. This gives the Commissariat a chance to influence decisions at meetings of such bodies in accordance with the guidelines laid down by the plan and to promote the adoption of measures studied or proposed by the various committees during its preparation. The effectiveness of this approach in helping execution of the plan is largely dependent upon the influence of the Planning Commissioner within the government and on his staff's capacity for preparing sound propositions.

The Commissariat has been also involved, in a more

intimate manner, in the execution of the Priority Action Programmes started during the Seventh Plan and its successor the PPE of the Ninth Plan. It "indicates the measures that must be adopted for the accomplishment of these programmes as well as the sums that must be earmarked for each programme over the five years.<sup>4</sup> With respect to the PAP, the Plan did not contain a detailed schedule for expenditure for each year. But a principle had been established whereby the action programmes were given priority funding during the preparation of the annual budgets, even if this was at the expense of other projects presented by the ministries. To ensure that this principle was respected, the office of the Planning Commissioner took part, each year, in the 'Budgetary Conferences' during which the budgets of the various ministerial departments were decided upon, within the limits of the expenditure ceilings fixed by the government. The office also reported on the state of advancement of the programmes in its annual report on the execution of the plan, which is submitted to the Parliament as an appendix to the budget. However, as a former head of the Commissariat's Economic Service had put it: "experience has shown that the Plan's participation in the annual budgetary discussions are not sufficient to change the direction of the decisions made year by year..." The lack of a real medium-term programming in most spending ministries, the inadequate integration of the Plan's programmes with the plans prepared by the ministries can lead in the course of the Plan's implementation to budgetary decisions that are contrary to the Plan's guidelines or priorities. In the annual budgetary negotiations with the Ministry of Finance, the ministries may propose, often rightly, an allocation of funds favouring current as against capital expenditure, leading to the non-implementation of the Plan's programmes which are confined to investment projects. Similarly the low rate of implementation of some of the Plan's priorities shows that even within capital expenditure, the de facto choices of the ministries at the centre or in the regions do not conform to the Plan's guidelines.<sup>5</sup> The new pro-



gramme, PPE, adopted for the Ninth Plan is designed to overcome some of the above shortcomings of the PAP and has, therefore, better chance of execution. The details would be explained in a subsequent section.

The failure to establish a link between short-term fluctuations and medium-term plans has also been an important stumbling block to successful plan implementation. Changes in economic situation during the life of a plan necessitate taking up of short-term measures, e.g., changes in wages, military spending, foreign aid, exports, prices, etc. These short-term actions are usually taken by the Treasury without reference to the plan's medium term programmes. "They often jeopardise the planned investment programmes and destroy the coherence of the Plan's overall growth pattern. Lack of coordination between short-term policy and medium-term programmes of the plan is the most serious obstacle to successful implementation of the successive plans."<sup>6</sup>

### INFLUENCE OVER THE PRIVATE SECTOR

Judicious use of economic favours or incentives often called incitations, which make a desired activity profitable to the businessman, has been the primary instrument of plan implementation in the private sector. This was specially so in the early years of planning when firms needed public or publicly controlled (e.g. from credit institutions) funds for financing their investment in view of the limited extent of self-financing, e.g., 22.7 per cent in 1947, 23.7 per cent in 1948, 30.1 per cent in 1949 and 34.7 per cent in 1950.<sup>7</sup> During the fifties, the extent of self-financing increased to about 45 per cent and further to around 70 per cent during the seventies, and with this, the role of the Plan also changed. As Dr.S.S. Cohen points out, while supplying cheap credit continued to be a means of promoting desired investments, its withholding was no longer a means to forbid undesirable investment.<sup>8</sup> In other words, this instrument was changed from a control to an incentive. The Commissariat exercises this influence not directly

but indirectly through the Ministry of Finance.

The provisions relating to credit planning, the most important instrument in this context, are discussed in detail in the next chapter. Other incentives, though not as important as the credit one, have also been used; these have varied from time to time and have included tax reductions, accelerated depreciation allowances in certain cases, state guarantee of loans, and subsidies. These have been available for various objectives like encouragement of exports, regional development, scientific and technical research, industrial conversion and restructuring, investment and savings, productivity, modernisation and international competitiveness. A firm can avail of several incentives at the same time.

A few examples of these incentives are given below. France, has had a regional industrial incentive programme since 1954. This was revised in 1960, 1966 and 1972. The bases of the system are incentives and controls; incentives to firms to locate their units in the priority areas and controls to prohibit excessive development in Paris. During the seventies, regional development grants were available to industry and to research and development firms for new activities or the extension of existing ones subject to certain conditions related to the size of their investment and employment which were different for different types of areas. Decentralisation indemnity consisting of partial reimbursement of expenses is given to induce firms to move out of the Paris region in order to reduce congestion. Capital gains tax reductions (half of the tax) might be given on land sales if the proceeds were reinvested in specified activities like those in conformity with regional development objectives.<sup>9</sup> Such examples can be multiplied.

In general, these incentives are more effective for small firms whose financial position is not very strong. Giants firms on the other hand, can easily afford to ignore them and undertake major investment projects without the approval and support of the plan. They, no doubt, avail of the incentives. But in many case, they do so for carrying out activities which they would have

carried out even otherwise. Further, the incentives operate on the supply side. They seek to induce firms to pursue desirable activities by making them profitable. But they are not intended to prevent an enterprise from expanding beyond the targets of the plan or in unplanned directions. It may be said that government takes action on the demand side through price policies or short-term monetary and fiscal policies, and these may produce a constraining influence on expansion of certain firms. But the demand management policies have often been not coordinated systematically with the objectives of planning.

### CONTROL OVER THE PUBLIC SECTOR

France, though a market economy, has a large component of public sector. The share of nationalised industries in national output and employment in 1973 was 11.5 and 7.5 per cent respectively. The share of non-financial public enterprises in gross fixed capital formation in 1973 was 15 per cent. Since then, public sector has expanded further after the nationalisations made by the socialist government in the past few years. What is, however, noteworthy is the range of activities under the public sector. These include aero-engines, oil (Elf), chemicals (various firms) cars and machine tools (Renault), shipping (Compagnie Generale Maritime), the main radio and TV Stations (including shares in commercial stations), coal, gas, electricity, public transport (SNCF and RATP) telecommunications (PTT), banks and financial institutions like the BNP and Credit National, and some insurance companies. Because of the critical importance of several of the sectors under State control, the public enterprises are expected to exert an influence on the economy which is much more than the figures on their shares in employment, output and capital formation would indicate.

Prima facie, the plan should have complete control over the public sector. Some people would like to regard the plan as real only for the public sector including the

nationalised industries, i.e., the plan while being 'indicative' for the private sector is 'imperative' for the public sector. Most of the observers, however, feel that nationalised industries are not so much amenable to the influence of the plan. As has been explained in earlier chapters, except in its earliest years, French Planning has not been concerned with indicating specific targets or obligations to individual firms whether in the public or private sectors. Moreover, the public enterprises in France have a strong tradition of autonomy which they seek to maintain. Some of them, specially those in the competitive sector, guard their autonomy better than firms in the private sector. The case of the Renault car is well known.<sup>10</sup> Consequently planners sometimes find it more difficult to influence public enterprises than private ones.<sup>11</sup>

Whether or not the plan would become obligatory for the public sector depends upon the extent to which it is taken into account in granting specific authorization to contract expenditures and in providing the necessary finance both of which are very much decided by the Ministry of Finance. Parliamentary approval of the plan does not guarantee financial sanction of public investment programmes included in it. Instances are not lacking when there has been divergence between budgetary policies and planning strategy. For example, Prof. Kindleberger mentions a case whereby the Commissariat's opposition to the tunnel under Mont Blanc and preference for the cheaper alternative under Mt. Cenis was over-ridden.<sup>12</sup>

The budget is exclusively an instrument of the government whereas the plan is influenced by social partners also through the concertation process. The budget deals exclusively with receipts and expenditures of the State whereas the plan deals with the whole nation. The budget is annual whereas the plan is prepared for a five year period. At the same time, there are a number of factors which help in evolving a common approach between the plan and the budget some of which have been indicated earlier. In addition, we may also

note that the government and the Parliament have responsibility for both the budget and the plan. Moreover, there are institutional mechanisms for joint consultation between the Commissariat and the budget. We may, therefore, conclude that the Commissariat has some control or influence over the public sector enterprises. Much of this control, however, is generally exercised through the Ministry of Finance.

With regard to the execution of the investment programmes of public enterprises in the energy (coal, gas and electricity) and transport (railways and airlines) sectors, the Commissariat has relatively greater control because the annual investment and finance programmes of these enterprises are approved by the Board of Administrators of the Economic and Social Development Fund (FDES) of which the Planning Commissioner is a permanent member. "Thus, in 1976, the Commissioner intervened and requested that the investment programmes of certain public enterprises for 1977 be increased so that the Plan's objectives in the energy field might be attained and to boost activity during a period marked by a lack or weakness of private investment."<sup>13</sup>

### RECENT MEASURES

As indicated in the previous chapter, better implementation has been one of the principal objectives of the July 1982 Act passed by the Mitterrand Government. Some details of two measures, namely, programme laws and planning contracts, introduced for this purpose, have already been given in chapter IV. A programme law, when first introduced, is discussed in detail including its financial provisions by the Parliament. Its approval implies commitment of the government to provide funds for the concerned programme over a period of time. Hence the annual budget of a programme law already approved is not subjected to detailed discussion in the Parliament. It is passed as a matter of normal routine. However the presentation of the budget is preceded by detailed discussion between the concerned administrative department

and the budget department. In order to become valid, the programme law requires four signatures, one from the Planning Minister, one from the Finance Minister, one from the Prime Minister, and one from the Minister of the concerned department. The signature of the Finance Minister implies commitment of the Finance Ministry to the proposal. Recently a programme law for research was also passed.

The planning contract is one of the innovations of the new planning system. This technique will be used in the first instance to foster the implementation of priority programmes under the National Plan, but it will also be possible to use it to help implement the priorities of the regional and other local authorities provided that such particular actions do not conflict with national aims.<sup>14</sup> Once the contract is signed, arrangement for funds is made and implementation is ensured.

Implementation of the plan will also be facilitated by introduction of a new scheme known as the PPE (Programme Prioritaire d' Execution) which is an improved version of the PAP of the Seventh Plan with respect to the following two aspects. The PPE will be defined in the beginning and will also have physical aims. The difference between the PAP and the PPE is essentially a difference of degree and not of kind. The new programme is more ambitious. Once a programme has come under the PPE, it will be more difficult for government to change its mind because this programme is supposed to come under the budget category known as 'Service Votes', a characteristic feature of which is that it is not subjected to annual critical scrutiny by the Parliament. Moreover, the programme contains a detailed schedule of expenditure for each year which is expected to be morally binding on the government. This is clearly an improvement over the PAP. A report prepared jointly by the Ministry of Planning and the Budget at the time of the preparation of the budget annually provides the budgetary means that the government proposes to assign for the execution of the priority programmes of the plan for the coming financial year.

A good beginning has already been made in this direction during the preparation of the Ninth Plan. A number of programmes under the PPE have been formulated. These constituted 20 per cent of capital budget and 6 per cent of total public outlay for the year 1984. This is not a small figure if we note that a greater part of public outlay is used in meeting the requirements of continuing projects. Further, the proportion is expected to go upto 30 per cent of capital budget and 8 per cent of total public outlay by the end of the Ninth Plan. The estimated cost of the PPE during the period of the Ninth Plan as a whole is 330 billion French Franc at constant prices. For the first time in the history of French planning annual breakdown of costs of programme under the PPE has been given. And in 1984, budgetary allocations for the PPE were made exactly as they occur in the plan.

Monitoring, an important element of the implementation process, has also been emphasized. "Twice a year, Parliament will have an opportunity of exercising its control over the ways in which the plan is being implemented and initiating a public debate on the subject should it so wish. One opportunity will be during the Spring sitting, when it will have before it a joint report based on the work of the National Planning Commission. The other opportunity will be during the budget sitting, when it will have before it the report from the plan and the budget ministers on how plan priorities have been taken into consideration in the budget proposals. To perform this function as effectively as possible, the National Assembly and the Senate have resolved to establish separate Parliamentary delegations for each house, to review the preparation and implementation of the Plan from first outlines to the end of the implementation phase. This closer parliamentary monitoring is intended to avoid leaving too much power in the hands of the two sides of industry during the planning process, which would be liable to detract from the prerogatives of the country's elected representatives."<sup>15</sup>

Of the several measures mentioned above, the system of programme law has been in existence for quite long. For example, there was a programme law for agriculture in 1962. Perhaps the present government may like to use it

more effectively. But by its very nature much frequent use of programme law is not likely. As regards the role of Parliament in monitoring the progress of the plan, much would depend upon the interest taken by this body, and the response of the government to the views expressed by it. As regards the PPE, it is designed to be an improved version of the PAP with particular reference to implementation. The planning contract is a new addition. Better execution of the plan is likely to be facilitated primarily through these two measures. On the whole, the new measures are an improvement over the earlier situation.

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## CHAPTER VI

# Credit Planning

The nationalisation of all banks except the little ones in February 1982, though governed mostly by ideological considerations, also highlight the significance of credit in the direction of economic activities. Power to allocate credit, and that too if subsidised, can be a potent instrument for influencing the flow of private sector investment into the desired directions. There are three ways in which the French Government has used this instrument: by directly giving loans to firms from the state funds, by involving the planning commissariat in the decision-making process of sanctioning loans from financial institutions above a certain amount (for all types of investment) and by allocating a certain amount of credit to be granted by credit institutions at their own discretion at lower (subsidised) interest rates to firms making investments in specified categories.

### DIRECT STATE CREDIT TO PRIVATE SECTOR

Financing of private investment directly by the state has been in vogue since 1955 when the government established the Fund for Economic and Social Development (FDES) one of whose objectives has been to give loans to private firms. The secretariat for the Fund is provided by the Treasury in the Finance Ministry, and its direction is under the control of a Board headed by the Minister of Finance. However, the Planning Commissariat has also been closely associated with it from the very beginning. The Planning Commissioner has been a member of its controlling Board and Chairman of one of its important specialised committees (Committee No.1). This association with the FDES provides an opportunity to the

Planning Commissariat to be consulted on an influence investment policy of those industries in the public and private sectors which seek assistance from the FDES. During the last twenty years, while the FDES remained a major source of investment finance for the national enterprises, its role as a lender to private industries has been declining. The amount available for this purpose in 1982 was just half a billion FF as against a credit of 24 billion FF to be advanced by credit institutions. Even this disappeared subsequently because of the absence of any provision under this head in the 1983 budget.

The FDES offers highly subsidised loans on long term basis to small enterprises and enterprises in difficulty. The interest rate charged in 1982 for these long-term loans was 10.25 per cent which was much lower than the market interest rate of 17.25 per cent and even lower than the subsidised loan under special procedures to be described in the third section of this chapter. Loans to small and medium sized firms are administered by a body known as the Inter-Ministerial Committee for Investment Development and Job Maintenance (CIDISE)\*. It provides special/ordinary loans out of the FDES for investment programmes undertaken by dynamic small and medium sized firms which are expected to increase production capacity, improve productivity, raise export levels and/or increase employment. The loan is payable on up to 25 per cent of eligible investment costs and is generally for a period of 15 to 17 years. Repayment of the loan starts after two or three years. As regards the FDES loans to firms in difficulty, the estimated value of awards approved in 1979 under this scheme was around FF 375 million. This is administered by CIASI (the Inter-Ministerial Committee for the Development of Industrial Structure) which helps a firm experiencing severe financial problems to re-

\*CIDISE was set up in mid-1979 and its activity grew rapidly so that in 1980 it advanced loans totalling FF519 million.

establish its viability by setting up a recovery plan, in the context of which it (the CIASI) may award a soft (i.e., subsidised) loan out of the FDES to supplement the capital contributed by partners of the firm. The value of the loan is related to the costs of industrial and financial restructuring and varies from case to case. The duration of the loan has been generally from two to five years and interest is charged at the rate applicable to the FDES ordinary loans (i.e., 10.25 per cent in December 1981). In general, the CIASI deals principally with larger firms and larger loans.

### CONTROL OVER BIG LOANS

There has been a tradition that requests for loans exceeding certain amount received by the long-term credit institutions, such as the Credit National, are sent to the Planning Commissariat for advice. The amount specified has undergone several changes over the years. Several years ago, it was 1 million FF for medium term (5 years) Credit and 2.5 million FF for long-term (over 5 years) Credit. During the years 1978 to 1981 the figures for long-term credit were 10 million FF for foreign firms and 15 million FF for domestic firms. In September 1982, these figures were doubled, namely, 20 million FF for foreign firms and 30 million FF for French firms. As most of the firms in France are of small and medium size, the number of proposals forthcoming for loans exceeding 30 million FF would be limited. For example, in 1981, the number of applications sent to the Planning Commissariat was around 200 only. This number declined to 140 in 1982 and below 100 in 1983 because of the rise in the specified amount in September 1982. Information on total amount sanctioned under such loans is not readily available. Consequently, it is not possible to evaluate the coverage of this scheme in relation to total investment activity of large firms. Also there is no recent study highlighting the exact role of the Planning Commissariat based on the actual experience. According to Hackett and Hackett, "the General Planning Commissariat, in consulta-

tion, if necessary, with the Ministry of Finance and the Ministry of Industry, takes account in formulating its opinion, of the investment plans of the prospective borrower and other aspects of his activity such as exports. This kind of 'intervention', which remains extremely discrete nevertheless gives the planning authorities an opportunity to orient decisions being taken by private firms along the lines of the policy laid down in the plan. It can influence not only the level of output, exports or investments, but equally the choice of a type of production (promoting, for example, one not yet produced in France), or can show the advantages of a certain specialization of production."<sup>1</sup> This observation made several years ago remains valid even today.

### INTEREST SUBSIDY ON SPECIFIC INVESTMENTS

Another method used for assisting investment, known as **Special Procedures**, consists of the State paying subsidy on interest rate to the term-lending financial institutions to enable them to advance subsidised loans to firms for specified types of investment projects. The concerned institutions in order of importance are Credit National, CEPME (Credit d' Equipment des Petites et Moyennes Entreprises), SDR (Societies de Developpement Regional) and CCCC (Caisse Centrale de Credit Cooperative). Loans to agriculture are primarily routed through credit Agricole. Loans advanced by commercial banks do not come under the purview of such provisions since these banks provide only short and medium-term loans and not long-term ones. However, quite often, there is a link between commercial banks and one of the above mentioned institutions giving long-term credit. Sometimes a term lending institution such as the Credit National would forward the project dossier to a commercial bank for short-term lending and sometimes a commercial bank would take the initiative and forward the same to a term-lending institution.

Instructions to the concerned credit institutions giving the details of the types of investment projects to

be assisted are issued by the Treasury in the Finance Ministry and not by the Planning Commissariat. These instructions relate to total amount of loans under the Special Procedures, their allocation under different categories and the amount to be advanced by each credit institution. The rate of interest is lower than the market rate, the difference between the two is subsidised wholly by the government. However, loans are advanced by the credit institutions out of their own funds. No security is needed for loans in this category. Repayment of a loan usually starts after 2 years if it is for 10 years and after 3 years if it is for 12 years.

A firm can get loan up to 100 per cent (50 per cent long term and the rest medium or short-term) if the investment is up to 2 million FF.\* In case investment is more, then loanable amount is restricted to 70 per cent of total investment with 35 per cent in the form of long-term loan and another 35 per cent for short-term or medium-term loan. The amount remains the same whether a firm qualifies under one or several heads. The period of long-term loan ranges from 8 to 15 or even 17 years but it is generally for 10 to 12 years. Medium term loan is available for 2 to 7 years (generally 5 years) while the short-term loan is for less than 2 years (generally 12 or 18 months).

The scheme was initiated in the year 1974 and has been revised from time to time. A substantial revision took place in 1982. Earlier, there was only one category known as the PSI (Pay Special Investment) according to which a subsidised credit was made available to firms making investments in certain categories, satisfying certain conditions. These conditions were rather tough with the result that a number of firms found it difficult to fulfil them. This, therefore, led to the opening of another category by relaxing some of the conditions associated with advance of loan but with reduced rate of subsidy. The additional measures, known as the PAE (Pay

\* The details pertain to September 1982.

Aid Enterprises) are meant for firms fulfilling the general conditions of growth, profitability and soundness.

The available data on rates of interest for 1982 and 1983 and the amount advanced in 1982 under these categories are given below:

	Interest rate		Amount (in billion FF) 1982
	1982 (%)	1983 (%)	
PSI	12.75	9.75	11
PAE	14.75	11.75	5
PCM (others- ordinary)	17.25	15.80	8
			24

The rate of interest under the last category (PCM) is equivalent to the market rate of interest as it does not contain any subsidy, whereas interest rates charged under the other two, namely, the PSI and the PAE contain an element of subsidy, the extent of which is determined by the difference between those rates and that under the PCM. It is also obvious from the above table that 16 out of 24 billion FF or about two-third of loans given by credit institutions in 1982 was under subsidised loan category.

Generally, the proportion of different credit agencies has been as below:

Credit National	41 per cent
CCPME	34 per cent
SDR	17 per cent
CCCC	8 per cent
Total	100 per cent

An useful feature of the scheme, designed to prevent its misuse, is that a review of loans is made after 4 years and if a loan is found to be not properly utilised then the concessions given are not only withdrawn from the concerned enterprises but they are asked to pay the ruling market interest rate for the past 4 years also along with an extra penal interest for 3 to 6 months period.

During the years 1982 and 1983 the following investments qualified for soft loans at concessional rates of interest:

1. Loans to finance investment in export industries. To be eligible for this loan, companies were required to commit themselves to expand their production capacities for increasing their exports to non-EEC countries.
2. Loans for energy saving investments to be given to those companies which invested in coal for oil and oil by-products, or undertook such operations which saved primary energy.
3. Loans for raw-material saving investments. This was started in the year 1978.
4. Loans for the development of robotics and automation of industrial process. This procedure was initiated in 1981 to assist companies developing robotics and automation of their industrial processes or manufacturing robot related equipments.
5. Loans for job creating investments. These loans were granted to small and medium sized firms\* which made new investments involving new jobs or for reconversion of a production unit. Such loans had a maximum term of 12 years with the grace period of 2 or 3 years. The maximum loan amount per operation for this special procedure

\* Firms with employees between 10 to 50 are classified as small or medium sized firms while those with less than 10 are known as artisanal.

was 1.5 million FF. It could be granted together with an ordinary long-term loan of the same amount and, if needed, also combined with the medium term credit. The investment programme in this case was to be designed to create stable employment. The firm getting loan was required to undertake to increase its workforce by 10 per cent within 3 years. This scheme had been in operation for several years though it had undergone many changes over the period.

6. Loans for industrial development abroad. Designed to finance the establishment of French companies abroad, this could include acquisition of an existing business or establishment of a new one.

Two more items were added to the above list in the year 1982 namely:

1. Firms with industrial innovations which increased the value added.
2. Research and Development.

The decision on the categories of industries to be eligible for subsidised loans is made by the Treasury alone after consulting the Industries Department and the Directorate of Economic and Foreign Relations of the Finance Ministry. The Planning Commissariat is not consulted. How does, then, the Treasury relate its decision to national priorities? According to a Treasury spokesman, the types of industries to be encouraged by the government are well-known to the Treasury and it is not necessary to consult the Planning Commissariat or read the Plan for that purpose.

### IMPACT

What has been the impact of these measures? There has been no independent evaluation: none at least is available in published form. However, the Treasury gets some feedback through the inspection notes of officers



which are kept confidential. In general, it is stated that the experience has been a mixed one. But, on the whole, the effect has been good and that is why the Special Procedures have been continued by the government from year to year. Funds sanctioned are generally utilised; for example, there was 100 per cent utilisation in 1980 and 1981 and in 1982 the utilisation was expected to be 80 to 85 per cent.

According to my estimate, about 20 per cent of the French investment is covered by the Special Procedures. For example, in the year 1982 total investment was 241 billion FF of which 50 to 60 billion FF could have been under those firms which took soft loans under the Special Procedures. This is estimated on the basis of the figure of 24 billion for long-term investment made available through the procedures for financing a part of the investment requirements, namely, 50 per cent in the case of smaller loans and 35 per cent in the case of larger loans as detailed above. No information is available regarding the allocation of soft loans as between different industries which is probably due to the absence of any concern for inter se priorities amongst them.

Besides, there is the control exercised by planning authorities on firms applying for loan worth more than 20 million FF for foreign firms and 30 million FF for domestic firms, every case of which goes to the Planning Commissariat for approval. There were 200 such cases during 1982; however, the actual role of the Commissariat has been limited in practice as there has been no case where such a request, approved by the credit agencies, has been turned down by it. The Commissariat, not having appropriate technical staff of its own for making a detailed scrutiny of every proposal, generally goes very much by the advice of the technical staff of the credit institutions themselves.

On the whole, the relationship between credit institutions and the Commissariat has been very nominal. There is limited credit planning in the strict sense of the term. However, if the term is interpreted broadly to include adherence to overall guidelines of the government

and national priorities then the scope is a little wider, but not very wide because of the considerable degree of self-financing by industries. The percentage of self-financing during the seventies has been generally above 60 per cent and went upto 78 per cent in 1978.<sup>2</sup> As regards Special Procedures, these are too many. Old procedures continue while new ones are added. As a result, almost every firm is in a position to get subsidised credit under one procedure or the other. Further, banks even though nationalised do not like interference from the government. Hence credit planning has not formed part of the plans. There is no planning of overall allocation of bank resources. Except for the amount used for Special Procedures, the rest is used in accordance with the profit criteria of financial institution.

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## CHAPTER VII

# Regional Approach to Planning

Decentralisation or regionalisation of the planning system is one of the three major changes that the Mitterrand government has introduced after coming to power in May 1981. Such a move, however, has a long history. The significance of the new measures can, therefore, be better understood and evaluated if these are studied in the light of the previous attempts made in this direction.

### THE EARLY MEASURES

In France, the most important administrative unit below the nation has been the department. This was administered by a high ranking civil servant appointed by the central government and known as the Prefect. The lowest administrative unit is known as the Commune ranging in size from a population of less than ten people to over 1,00,000. Above this is the Canton. Further above is Arrondissement headed by a sub-Prefect and these together form the Department. Traditionally, the Department and the Commune have been the two basic administrative units dating back to Napoleon.

Planning in France started on a centralised basis, being in conformity with a long established centralised administrative system. Some awareness of regional development problems, however, emerged in the 1950s specially after the publication in 1947 of the now famous book **Paris and the French Desert** by J.F. Gravier. This book put in sharp focus the stark contrast between the capital city and the rest of the country. The Second Plan underscored the need for strengthening regional economies. The FDES (Fund for Economic and Social Development) was

created in 1955 to finance, *inter alia* the regional programmes prescribed in the Second Plan. The year 1955 also saw the establishment of the Societies de Developement Regional (SDR) of which there are currently fifteen branches. Their primary function is to provide funds to industries in the form of equity participation, long-term loans and bank guarantees. The idea of bigger units known as regions for programme formulation purposes was also born. The effectiveness of these regions in promoting regional development was, however, marginal. "The Paris region continued to have a strong attraction for industry and, in 1961 for instance, one third of industrial start-ups were located in the ten economically richest departments".<sup>1</sup> The administrative system also remained unchanged. So was the planning system.

However, with the coming of the 1960s, and under the influence of various factors (change of regime, evolution of planning, and end of the colonial period), a change took place in favour of promoting a regional articulation of the national plan and a policy of regional development and planning. In contrast to the first three plans which had no specific regional objectives, the Fourth and the Fifth Plans developed programmes for dealing with regional imbalances. The growing awareness of the need to take up regional analysis and deal with regional problems indicated the need for units bigger than departments. The then 95 departments were considered too many for effective regional analysis. It was in this context that the concept of programme regions each consisting of several departments had been born in the late fifties. In June 1960, the government created a number of such programme regions and thus initiated a process of regionalisation of planning.

A major step in the direction of regionalisation was taken in 1963 when the government set up a new institution known as the Delegation a l' Aménagement du Territoire et 'a l' Action Regional, DATAR (Delegation for Regional Management and Regional Action) as a new inter-ministerial department to act as a coordinator between the various ministries and departments and between these

and the regions. The DATAR also acts as a generator of new socio-economic plans and policies for regional development. It is also responsible for the implementation of regional projects. While not itself a development agency in the normally accepted sense, it has been involved in a wide range of developmental functions including publicity and promotion and the provision of financial incentives.

### THE 1964 REFORM

Another major step was taken on March 14, 1964 when the State Government transferred certain powers from itself to local officials responsible to it and set up administrative authorities at the level of regions. At the same time, the central ministries made the territorial limits of their regional services coincide with the limits of these regions. Whereas previously ministries maintained their own local agencies in the regions, the 1964 Act placed their services under the control of the central regional authority. In this manner, it took a step forward in the direction of a more horizontally integrated administrative system.

These regions were endowed administratively with a Regional Prefect, a Regional Economic Development Commission (CODER) and a Regional Mission. The Prefect of the Department of the chief city of the region also became the Regional Prefect. He was the pivot of the new institutions and a link between Paris and the regions on matters related to regional planning and development which were the chief concern of regional administration. He guided and supervised other Prefects in the region. The Regional Mission consisting of four to eight young higher civil servants, some working full-time and others part-time, constituted the cabinet (personal staff) of the Regional Prefect and also provided the secretariat of the Economic Development Commission (CODER) which consisted of about 50 members (the exact number varying slightly from one region to another), drawn mostly from departmental councillors and representatives of economic

interest groups. The CODER was supposed to be a link between the central government organs and local opinion.

The CODER was primarily a consultative body without any independent power of enquiry or debate. The agenda for its meetings was drawn up by the Regional Prefect. It did not have an investment budget. Nor had it any funds for financing its own research. By order of the government it generally met briefly twice a year. The process of consultation for preparation of the regionalisation of the national plan was further enlarged by constitution of working parties by the Prefect. Generally these groups comprised members of the CODER, civil servants and experts.

An understanding of the nature of regionalisation of planning under the 1964 Act can be had by looking at the tasks which had to be accomplished at the regional level. The first series of tasks dealt with forecasting and anticipating regional development within the national context. These involved matching national forecasts and expectations with those of the regions. These tasks were carried out in cooperation with the Planning Commissariat (CGP) and the Delegation for Regional Management and Regional Action (DATAR) at the centre. The second series of tasks concerned studies of a regional nature such as regional urban structure or regional housing index. The third type of task related to planning of public investment during the second stage of the regionalisation of the plan. This required the establishment of a time table and financial allocation for operations concerning infrastructure and social capital financed by the public authorities (State, Department, Commune, etc.). These investments were classified in three categories, as below:

- (a) The major investments (for example motorways and universities) on which the regions were consulted.
- (b) The investments labelled 'regional' for which the regions (through the Regional Prefects, after the advice of the CODER) could make proposals con-

cerning the relative priority of operations and of their localisation, within the limits of a financial sum specified by each ministry.

- (c) The residual investments of purely local interest, for which the central government's financial contribution was to be allocated by the Regional Prefects between the departments of a region.

The preparation of the regional segments of the national plan's public investment programmes, i.e., programming activity proper was carried out primarily by the Regional Mission which worked with the departmental services of the central administration on the one hand and the working parties set up by the Regional Prefect on the other. The Mission very much depended on the information possessed by others and notably the departmental services. The transmission of information thus became an arena of bureaucratic conflicts between different levels of the administrative apparatus; the regional level being seen as a threat by the departmental bureaucracies to their own networks of influence.

According to an evaluation made by Gremion and Worms, and Michael Watson, the 1964 measures had only a limited success in regionalisation of planning.<sup>2</sup> They did not modify the structures of state administration. Nor did they lead to a modification of the power of local political bodies, i.e., departments or communes. To quote Watson, "The regional activity of government departments remained compartmentalised, with lines of communication still running direct to the centre; while local authorities and interest groups continued to concentrate on links with government departments at the centre and with their principal field offices. In this situation, the regional planning bodies were used simply as an extra, secondary channel for the articulation of demands."<sup>3</sup>

The reasons for this dismal performance are political, administrative, economic as well as financial. In the absence of any formal political system at the regional level, political accountability even for regional

development remained at the national level; this implied that the ultimate responsibility and power for regional affairs lay with the central government. And the relationship between the region and the centre was one of complete subordination, the region having no autonomy at all. The provision of inadequate financial resources at the regional level had the effect of forcing the regional planning agencies to dance to the tunes of national authorities. The central administration played a decisive role even in the control of research undertaken to contribute to the regionalisation of the plan. As the region had no budget, studies of a regional nature were financed by the central government.

"The regional integration effort met with strong resistance from the prefectures and field services of the central ministries. Resistance was no less strong among local authority representatives (mayors and general councillors) or from business and farm organisations (Chambers of Commerce, Chambers of Agriculture). The situation can be summed up by saying that planning failed to break the close relationship between the specialised branches of the administration and their 'partners', a relationship which tends to maximise sectoral interests in the process of decision concerning public investments. A mutual reinforcing occurred between administrative resistance and the resistance of local political leaders to attempts at integration, clarification and rationalisation of the decisions".<sup>4</sup>

The existence of a well-established national planning system having a sectoral rather than spatial basis, was another factor which favoured centralisation of power and, therefore, vertical administration through sectoral departments. National economic planning has a tendency to treat regional dimension as subordinate to nationwide sectoral considerations. The sectional pressures exerted at the centre by national interest groups worked in the same direction. "There is little chance that sectoralisation will be broken down where regional planning remains primarily something attempted from the centre. Above all, the centre has continuing national responsibi-



lities for industry, transport, education, etc."<sup>5</sup>

### THE 1972 ACT

The events of May 1968 led President de Gaulle to formulate an important regional reform proposal to transform the regions into territorial authorities with elected assemblies. This was put to a referendum on April 27, 1969 but was rejected by the people. However, a Regional Reform Act was passed by the Parliament on July 5, 1972 which was less radical than the de Gaulle's 1969 proposals. Under this Act the regional agencies were to be consulted by national planning commissions on national choices to be made in the second phase of planning and more particularly on regional development programmes. This Act vested the region with the powers of a corporation and replaced the CODER by two bodies: a Regional Council composed entirely of political representatives (MPs, Mayors, local councillors) and an Economic and Social Committee, composed of representatives of the region's organised interests (economic, social, educational, etc.). The Regional Council took over all the CODER's responsibilities in respect of planning. As a public corporation the region could either undertake public investments of a strictly regional character on its own account or participate financially in local or central government projects within the region. Financial resources were provided for by the devolution of the central government tax (on driving licences) and by the option given to the Council for introducing an additional levy on a number of other central government taxes. However, the Regional Prefect, appointed by the Centre, continued to supervise the work and carried out the decisions of the Regional Council. The model adopted here was that which governed the relations of the Prefect with the General Council in the Department. The Act did not provide for the functions of the Regional Prefect to be separated from those of the Departmental Prefect. The modest character of the modifications introduced by the 1972 Act merely served to emphasise the point that

regional planning had had only an insignificant impact upon the traditional French politico-administrative system.<sup>6</sup>

The 1972 Act did not have any significant impact not only because it was not much different from the earlier Act but also because the period since then witnessed the decline of economic planning--national, regional or local. This position continued for a number of years till the end of the seventies. During this period, the regional planning institutions in general and Regional Mission in particular which was to provide the nucleus of a planning organisation at the regional level became less relevant and therefore either declined or failed to gather any strength. Consequently centralisation continued unabated. The extent of centralisation can be determined from the fact that in 1979 the approval of fourteen separate state agencies was required before a local school could be built even after general budgetary authorisation had been given.<sup>7</sup>

### THE NEW MEASURES

The process of decentralisation received a big push in May 1981 with the election of Mitterand as President who had proposed a broad decentralisation of public administration during the presidential election campaign. By the end of July and beginning of August 1981, a bill, bringing about an institutional reform of communes, departments and regions, was passed by the lower house, (House of Assembly). As a result, the elected councils at the communes and departments were vested with executive powers to be exercised by the elected heads of these councils. The system of prior approval by the Prefect was abolished. In case the local elected authorities take some irregular decisions, then the Prefect (now called Republic's Commissioner) can bring the matter for judgement before the concerned administrative or revenue courts. The regions were to be established as full-fledged regional authorities with elected assemblies. The powers vested in the region were to be extended. The

regional authorities would also be subject to judicial authority as in the case of commune and departments. These changes in the administrative system were supposed to provide the institutional basis for decentralised planning in general and regional planning in particular.

The enactment of these measures for preparation of regional plans is considered as the most striking innovation in the new planning process. However, no specific rules or guidelines have been laid down for preparing such plans since these regions have only just acceded to the status of local authorities with full powers and do not yet have assemblies elected by direct universal suffrage. It would, therefore, be upto each regional council to decide what procedures would be followed in approving the region's plan.<sup>8</sup> The regions are only under two obligations: (1) to send to the centre 18 months before the start of a plan, a document setting out development priorities for their productive activities, and (2) to approve their own plan within three months of publication of the second plan law if they wish to enter into a contract with central government for co-financing. The objectives and scope of such contracts should form a part of the regional plan. The contractual provisions must be accompanied by diverse actions and more or less in conformity with the regional economic environment. What is stipulated is action jointly taken with the regional financial establishments. The planning exercise is to be conducted at 3 levels, viz., (a) State, (b) Region, and (c) Under-region, i.e., towns and groups of towns. Planning contracts would be signed by any combination of the 3 levels, i.e., the state and region, the state and sub-region, region and sub-region or all 3 taken together.

"With the simultaneous adoption of regional plans, even though each may be in accordance with the law, there may still be room for incompatibilities in particular fields, or indirect conflict with national plan aims. Provision has, therefore, been made that the minister for the plan assesses the consistency of regional plans both with one another and with the national plan, then reports

to the government on fields in which adjustments may be or are required. Negotiation of plan contracts should encourage any necessary adjustments without in any way dictating to the regions."<sup>9</sup>

Thus the regions have been empowered to decide the priorities of their development, communicate the same to the national government and enter into planning contracts with it. Besides, every region is represented in the National Planning Commission responsible for preparing the national plan. This is a major step in the direction of regionisation of planning. It is also hoped to avoid the two extremes of complete independence of the two levels on the one hand and total association on the other. But there is no legal provision to ensure this. Unlike India, the French regional and local units are expected to function rather autonomously and not within some multi-level planning framework.

The experience with regional planning since the introduction of the new reform measures has not been as satisfactory as had been hoped for. The participation of regional representatives in the National Planning Commission has been disappointing. Most of them did not attend the meetings. It took quite long for the government to pass the law of competencies dealing with functions to be performed at the regional level. Regional planning machinery could not be created immediately and continues to be largely unsatisfactory. Regions having more resources and better planning units have done better than others.

What are the prospects of success of the new measures? The institutional changes have removed some of the weaknesses from which the regional planning exercises of the previous decades suffered specially those related to political accountability and administrative powers. As already mentioned, administrative power at the regional and sub-regional levels has been vested in elected bodies and the power of the Prefect has been much reduced. But this, by itself, is not enough. There are several other pre-requisites for the success of this approach, these are related to the extent of financial viability of the

regions and sub-regions, adequacy of planning organisation at those levels and extent to which a logical and coherent scheme of allocation of responsibilities can be worked out.

In the French fiscal system, it is the government at the centre which has power to raise national taxes. The taxes levied by the local authorities are not very elastic. Consequently, these authorities have to depend upon the central government for their developmental outlays. Take for example, the case of the north region, which is one of the more prosperous ones. During the years 1981 and 1982, the amount of finance coming from the region's own resources constituted only one fourth of the amount required for developmental projects of the region. The remaining three fourths came from that of the centre. The figure would vary from region to region as the proportion of the availability of State funds is different for different works (like the practice which prevailed in India before 1969) or from ministry to ministry. During 1981 the combined budget of the 26 regions amounted to 6 or 7 billion FF whereas the central budget came to more than 600 billion FF of which about 80 billion was available for development. The 96 departments plus 6 overseas departments together had a budget of more than 100 billion FF of which the developmental budget was less than 10 per cent say 10 billion. As regards funds coming from banking and credit institutions, the regions have no control over them. The regional authorities play some part in credit allocation through informal advice or persuasion by contacting the regional level credit institutions or regional branches of national credit institutions. But they have no legal authority in this respect. In case of any difficulty the regional authorities have to approach the central authority through the DATAR. In view of the inadequacy of financial resources, the regions are not likely to give up the habit of looking up to the centre for guidance in matters of planning. Experience of India also points to the same directions. There was some thinking to pass a law incorporating devolution of financial power to the regions and depart-

ments. However, this has not taken place till the end of 1983.

It may not be possible for the regions to make an effective use of the new law and switch over completely to regional planning during the period of the Ninth Plan, in view of the very limited experience of planning that they have. Regional administration is itself young, having been created after the 1964 Act. Earlier, the regional administration was under the Prefect. Now a Regional Council has been established and its president has been made the administrative head of the region. The functioning of these new authorities is itself to be seen. The strength of the present planning organisation at the regional level and the levels of expertise vary from regions to regions. But on the whole, the organisation is either weak or non-existent. It is inadequate both in terms of number and quality. In 1982 many of the personnel dealing with planning in a southern region were found to be working on a part-time basis and were drawn from other offices of the region.

It is true that Regional Missions had been established more than a decade ago; but as pointed out earlier, they either remained dormant or declined during the late seventies. (Recently, the name of the Regional Mission has been changed to Secretariat General for Regional Affairs). It is also true that the regions have a fairly good base of data, which is needed for the success of regional planning. This is provided by the regional offices of the INSEE. In addition, researches and studies are also conducted by universities and research institutes some of which are commissioned by the administration. But data agencies like the regional branches of the INSEE are not competent to plan since planning is a strategic and not just a statistical exercise. Planning should be done by groups of creative persons. Planning also involves making up strategic choices; it is not just a list of projects. Hence, by its very nature, planning is a difficult exercise for which the regional agencies are not properly equipped at the moment. Because of this inadequate administrative

infrastructure, it may not be advisable or even possible to have planning of everything in the beginning. A better strategy would be to restrict it to a few items considered more important. This is what is likely to take place.

At the moment, the work related to planning at the regional levels is handled by two agencies, one under the Regional Prefect and another under the President of the Regional Council. (The name of the Regional Prefect has now been changed to the Republic's Commissioner to the Region.) The Prefect's office is still concerned with national planning at the regional level whereas the Regional Council is concerned with regional planning at the regional level. While the Prefect's office has got some staff and experts, that of the Regional Council has to be newly established. Generally, the regional planning office borrows staff and advice from the experts of the Prefect's office. It would take some time before the Regional Council becomes clear as to the type of planning office it should create.

Another problem that one encounters is one of attitudes. Decentralisation has been a political decision and one wonders whether there was any strong backing for it at the administrative level. Administration in Paris has always been highly centralised and is unlikely to have any enthusiasm for the political move in favour of decentralisation. The lines of communication run direct from Paris to departments and to the communes. A view that the bureaucracy has been trying to delay the process of decentralisation was expressed by some observers. In addition, several experts have doubts about the need for too much decentralisation for a country like France which, unlike India, is not very large. The progress in regionalisation of planning, therefore, is likely to be slow, (or at any rate not very fast) during the period of the current Ninth Plan. What will happen during the Tenth Plan scheduled to start from 1990 is too far to hazard a guess.

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## APPENDIX

### French Planning System and the Indian: A COMPARATIVE STUDY

The planning system of any country is conditioned by the socio-economic, political and administrative framework within which it operates. Since both India and France are democratic countries with a mixed economy and centralised administration, it is not surprising to find common points in their planning systems. France, however, is an economically advanced country while India is not. France has been a unitary state whereas India has been a federation of states. France is basically a capitalist economy and intends to be so, whereas India has decided to move towards the establishment of a socialist system. Consequently, there are several dissimilarities in the planning systems of the two countries which are no less marked than the similarities. Here an attempt is made to compare a few salient features of the French planning system with those of India's.<sup>1</sup>

#### RELATIVE STABILITY OF THE TWO PLANNING SYSTEMS

We have seen how the role, nature and strategy of French Planning have been changing over the years. But the planning system has exhibited a greater degree of stability. India, too, has a long (since 1951) and varied experience of planning, characterized similarly by a relative stability of its planning system which has hardly undergone any change ever since the period of its Second Five Year Plan.

As between the two countries, it is the French Planning system which has been more flexible even though, unlike India's it has a statutory framework.<sup>2</sup> As seen in chapter II, over the years, there have been changes in French Planning with respect to its scope and approach

towards public outlays. In contrast, the scope and method of planning in India have not changed much. India from the very beginning opted for comprehensive planning alone with financial allocation and target fixation and has continued with them despite setbacks. The strategy of planning has also remained more or less the same since the Second Plan (1956-61)--around the Mahalanobis model.

With regard to the institutional framework also, the French experience has been more varied than the Indian. As described in chapter III, France has experimented with several planning bodies at higher levels of decision-making like the High Planning Council, established in 1946, the Central Planning Council established in 1974 and the National Planning Commission set up in 1982. In contrast, the National Development Council, a somewhat similar body in India, has remained intact ever since the inception of planning.

### INSTITUTIONAL FRAMEWORK

#### The Planning Commissariat

Like the Commissariat General du Plan in France, India has its planning commission which performs a key role in planning process being responsible for preparation, execution and monitoring of the plan. The internal structure of both the institutions is also similar, consisting of several divisions and sections. Like the commissariat, the Indian Plan body also serves as a meeting place, a round table for different ministries and others. Both the institutions have little direct power to take decisions; and yet they influence decisions because of their representation in a large number of decision-making bodies. The position of the Indian Planning Commission is better since it has power to determine the allocation of plan funds to different ministries and states and a prominent voice in the fixation of their targets. This, combined with the authority of the Prime Minister, who is its Chairman, enables it to exert a more powerful influence than is suggested by its advisory role and the fact that it is not a statutory body.

The Commissariat is headed by a high ranking officer called Planning Commissioner (Commissaire Au Plan). The Indian Planning Commission is formally headed by the Prime Minister. However, it is the Deputy Chairman, holding the status of a Cabinet Minister, who is the whole time operational head. Unlike the Commissariat which is a small body of professional experts, the Indian Planning Commission is a large organisation. This, combined with its greater power, tends to provoke some opposition towards it in the ministries. As seen in chapter IV, the Commissariat has been receiving considerable technical support from several research institutions. There was a time in the fifties and early sixties when the Indian Planning Commission also used to depend similarly on the Indian Statistical Institute, but not so anymore. Some research studies are no doubt sponsored by it, but, by and large, the Indian Planning Commission conducts many technical exercises on its own and is more or less self-sufficient in this respect.

### **The Working Groups or Commissions**

We have seen how one of the most distinguishing features of the French Planning system which has attracted widespread attention is the way it involves thousands of people in plan formulation through groups first called Modernisation Commissions and now only commissions or working groups. India has also its working groups which are appointed by the Planning Commission at the time a plan is formulated. But these are primarily official bodies consisting mostly of officers from the government both central as well as states supplemented marginally by a few professional experts. The private sector is either not associated or associated in a nominal sense only. Same is the case with the trade unions. Some similarity may be seen in the Development Council for several industries established by the Industries Department under the Industries Development and Regulation Act, 1951. But it is doubtful whether they have any role in the formulation of the plan. Their views may be represented by the Industries Department and while doing so, it is for that

department to decide which views to project and which to ignore. As regards sectors other than big industries, such as small and household enterprises, agriculture, animal husbandry, fisheries, trade and commerce, transport and communication, even such a mechanism is not there. Moreover, the French working groups meet more frequently and regularly. Such groups in both the countries are essentially advisory bodies. But the French body, because of its composition, plays a varied and more useful part than its counterpart in India.

### **Other Institutions**

As described in chapter III, France has an Economic and Social Council which is also involved in the planning process. Besides it has a body like the National Planning Commission now and had High Planning Council and Central Planning Council earlier. Such bodies have no counterparts in India though the National Development Council consisting of some members of the Union Cabinet and the Chief Ministers of the States and headed by the Prime Minister is somewhat similar. But the Indian body though in existence since the inception of planning has met very infrequently and has been largely superfluous.

The draft of the plan in both the countries is sent to Parliament for approval. But because of the governmental control over it in both countries, the part played by the Parliament has actually been limited primarily to making of marginal changes in the draft of the plan.

### **The Plan and the Government**

In the ultimate analysis it is the government that has the final say in plan formulation in both the countries. The government exercises this influence through a number of ways and at different stages during the preparation of the plan. The basic decisions regarding objectives and package of policies are taken by it. The views of various ministries are taken into account while finalising the content of the plan. Further, the draft plan is examined and approved by the Cabinet before it is forwarded to the Parliament.

Within the government, it was the bureaucracy which had a major say in the planning process in France in the early years. However, political stability under President de Gaulle and his successors caused the plan to be identified with the government at the political level. So long as the same party was in power, this process did not affect the continuity of the plan. But with the 1981 change, the Eighth Plan formulated by the previous government was abandoned and an Intermediary Plan for 1982-83 was adopted (see Chapter III for details).

In India, planning has always been more closely identified with the central government. The Planning Commission itself is headed by the Prime Minister. Changes of the type that took place in France in 1981 occurred twice in India. In 1977 when the Janata Party came to power, it terminated the on-going Sixth Five Year Plan and introduced a new one of its own which, in turn, was terminated prematurely in 1980 when the Congress Party came back to power.

## PLAN FORMULATION PROCESS

### Plan Models and Planning Techniques

The role of the planning models in plan formulation in France has been described in chapter IV. The French started with rudimentary planning methods and built up sophisticated models only gradually. No formal models were used till the 1970s. In contrast, India started using sophisticated planning models from an early stage. The Mahalanobis model used for the Second Plan (1956-61) was subsequently supplemented by multi-sectoral models based on input-output tables. These have been made more sophisticated in recent years. France has, however, caught up in this in recent years as can be seen from its use of the FIFI and DMS models. Advances in computer simulation techniques in the late 1970s have also been useful. However, in France, the increasing sophistication of econometric modelling for both medium-term forecasting and policy took place at a time when importance of planning in general and that of planning quantitative

and precise objectives in particular declined. Consequently, the plan forecasts came to have substantially less operational significance in the 1970s than the earlier ones. Although the macro economic and implied sectoral projections continued to be made, they were essentially just one input into the process of decision-making rather than a direct basis for action.

Both India and France have made use of perspective planning techniques to set their medium-term plans in some longer-term context, but without much success. Every plan in India has contained some exercise on long-term perspective. But it has been not so regular in France which indulged in this exercise only from Third to Sixth Plan. However, a proper integration of long-term studies with the medium-term plan has not taken place in either of the countries. Thus planning in both the countries is concerned essentially with the medium-term, covering a period of five years.

### **Stages in Plan Preparation**

Over a period of time, the French have developed an elaborate system of plan preparation as detailed in chapter IV. Many of these steps are also followed in India but the procedure is not as systematic as it has been in France. In particular, India does not have a well laid out time schedule for various stages in plan preparation as in France. Consequently the formulation of a five year plan in India gets delayed and one does not know when a particular stage will be over and another will start.

### **Decentralisation of Planning**

Attempts to decentralise the planning process have been made in both India and France. India, no doubt, has a more varied and longer experience in this respect as it to be expected in view of its much larger size and a federal constitution. Because of the constitutional requirements, planning at the State level in India has been as old as planning at the national level. But, for various reasons, the State level planning has remained

weak and largely ineffective. This was specially so in the earlier years. The situation with regard to planning at substate levels, namely, the district and the block, is even worse despite the widely felt need for the same. Several experiments have been made since 1952. These include measures at democratic decentralisation initiated in the fifties and steps to establish planning machinery at the district level since 1969 and, specially during the past few years. Sporadic attempts to decentralise planning further at the block level have also been made during the past few years but without any success. These measure have been introduced, not through any constitutional amendment, but through administrative orders. Their operation, therefore, depends on the sweet will and mercy of the government at the State level.

As seen in chapter VII, attempts were made in France in 1964 and 1972 to decentralise the planning process at the regional level. These did not succeed. Thus, in France as in India, it is planning at the national level which has continued to occupy a dominant position. This is not surprising in view of the centralised administrative system in both the countries. France, however, has introduced a major change in recent years after the Socialist government under President Mitterand came to power in 1981. As a result, France has not gone ahead of India by giving statutory power to regional and local institutions in contrast to the method of administrative orders and guidelines adopted in India. The effectiveness of the new measures can be assessed only after some time.\* But there is no doubt that a good beginning has been made.

#### PLAN IMPLEMENTATION PROCESS

What mechanisms help to ensure that the plan would be implemented when the planning authority has no controlling power over the economy? One such mechanism in both countries is provided by the plan itself. A plan, which is well prepared and whose various targets and forecasts are internally consistent, may induce the economic agents

to follow it in their own interest. Implementation is also facilitated by the representation of the planning agencies of both countries on many of the bodies of the government dealing with formulation and execution of economic and social policies. In France, the process of consultation in the various commissions/working groups involving those responsible for execution of projects/programmes also tends to facilitate implementation. Moreover, the Commissariat in France has been involved, in a more intimate manner, in the execution of programmes like the PAP and the PPE.

France has tried to influence the decisions in the private sector primarily through economic incentives whereas India has used both economic incentives as well as coercive measures. Incentives often used are more or less similar in both countries, e.g., allocation of credit, tax reductions, accelerated depreciation allowances in certain cases, state guarantee of loans, and subsidies. As indicated in the text, the effectiveness of these measures in France has declined due to increase in self-financing. These are now more useful in promoting desired investments rather than in forbidding undesirable investment. Further these incentives are more effective for small firms whose financial position is not very strong. Indian experience in this respect is quite different. Apart from using incentives, the authorities in India have not hesitated to impose curbs on the growth of private enterprise in certain directions considered undesirable in the social interest.

France as well as India have a large component of public sector specially in areas of critical importance to the economy. *Prima facie*, the plan should have complete control over the public sector. But not so in France for reasons already specified in chapter V. In India the situation is slightly better since the public sector is tightly controlled by the respective ministries, and there is better integration of the overall plan with sectoral plans of the ministries. But even here, the Planning Commission has no direct control over the public sector enterprises.



Successful plan implementation in both India and France is also constrained by inadequate integration and (sometimes) even conflict between medium-term programming and short-term management. Changes in economic situation during the life of a plan necessitate taking up of short-term measures, e.g., changes in wages, military spending, imports, prices, etc., which, being of the nature of fire fighting operations, get precedence over longer-term objectives resulting in deviations from the content of a plan and consequent non-fulfilment of its targets.

Better implementation has been one of the principal objectives of the July 1982 Act passed in France by the Mitterand Government. Apart from committing funds on a long-term and priority basis for the PPE, two new measures, programme laws and planning contracts, have also been introduced for this purpose. All these measures are designed to introduce multi-year budgeting to overcome the uncertainties associated with the well-entrenched principle of annual budgeting. A good beginning in these respects has already been made during the Ninth Plan (see chapter V). On the whole, the new measures are an improvement over the earlier situation. India has yet to ensure a conformity between the plan and the budget to this extent. The so-called core sectors of the Indian plans do not imply long-term commitment for funds of the type indicated by the PPE.

#### PLANNING AND THE MARKET MECHANISM

Unlike the Soviet Union and several other countries, both India and France introduced and continued with planning without abandoning the market mechanism. But the market economy in France, has not been subjected to that much control and regulation as in India. The French Government does not indulge ordinarily in price and wage controls, import quotas, consumer rationing or government allocations of raw materials and capital of a type that exists in market economies like India. the French Planning system is based primarily on persuasion, consent and inducements rather than on coercion. It reduces con-

straints for the market rather than increases them. India, however, has not refrained from using coercive powers also.

There are several ways in which French style planning is supposed to work through and influences the market mechanism. These have been described in chapter II. However, a basic point is that planning through the market has greater chance of success if its goals are in harmony with the interests of the leading operators of the market.

Goals like efficiency, modernisation and growth belong to this category. On the other hand, it may be less effective if the goals run counter to the interests of these operators as for example, goals like reduction of disparities in income distribution or restricting the growth of monopolies. An important reason for the so-called success of French planning lies in the fact that its aims have generally been in harmony with the interests of the big business. The plans have concentrated on efficiency and expansion and not on questions of equity. They have concentrated more on speed of development rather than on its direction. Nor have they put any restriction on the expansion of big business. Planning, indeed, came as an aid to the market system so that it can face international competition. French planning has been planning in a market economy for the benefit of the market economy. It is in this respect that the Indian planning differs most significantly from the French. Objectives related to distribution of income have always occupied an important place in the Indian plans. It is this consideration that has forced India to put a number of physical restrictions on the operation of market forces and give higher priority to the expansion of the public sector.

Another characteristic of the French planning system, different from the Indian one, relates to the role of the private sector in the process of plan formulation itself. As indicated earlier, unlike India, the French have designed a planning system in which the private sector is prominently associated with it. Such an arrangement has

helped both the private sector as well as the planning authorities.

#### PLANNING--INDICATIVE OR IMPERATIVE?

Indicative planning (as opposed to imperative) has for long been regarded by many as the most important feature of the French planning system. It shows the directions in which the economy ought to go rather than providing specific targets for individual plants and firms. But as explained in chapter II, indicative planning is not a very correct description of French planning. It is not confined simply to forecasting and describing the spontaneous development of the French economy - as might be suggested by the term indicative, but also to guiding it towards the attainment of chosen objectives for which purpose certain policy instruments, mostly of the nature of incentives, are used.

Planning in India as in France is also a combination of indicative and imperative planning. The targets for the private sector specially for the unorganised sectors in agriculture, industry, trade, transportation and services which constitute a significant part of the Indian economy are essentially indicative in nature. However, it is also true that the imperative element is more pronounced in India while the indicative one is more so in France. This is facilitated by the fact that the private sector in India is subject to a greater degree of control and the public sector more subservient to the government than in France. The scope of public sector is also larger in India. On the whole, planning in India is more comprehensive than that in France. But whether it is more effective remains doubtful.

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2. Institutions of planning in France are creations of legislation passed by its Parliament whereas those in India are the resultant of administrative orders.

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